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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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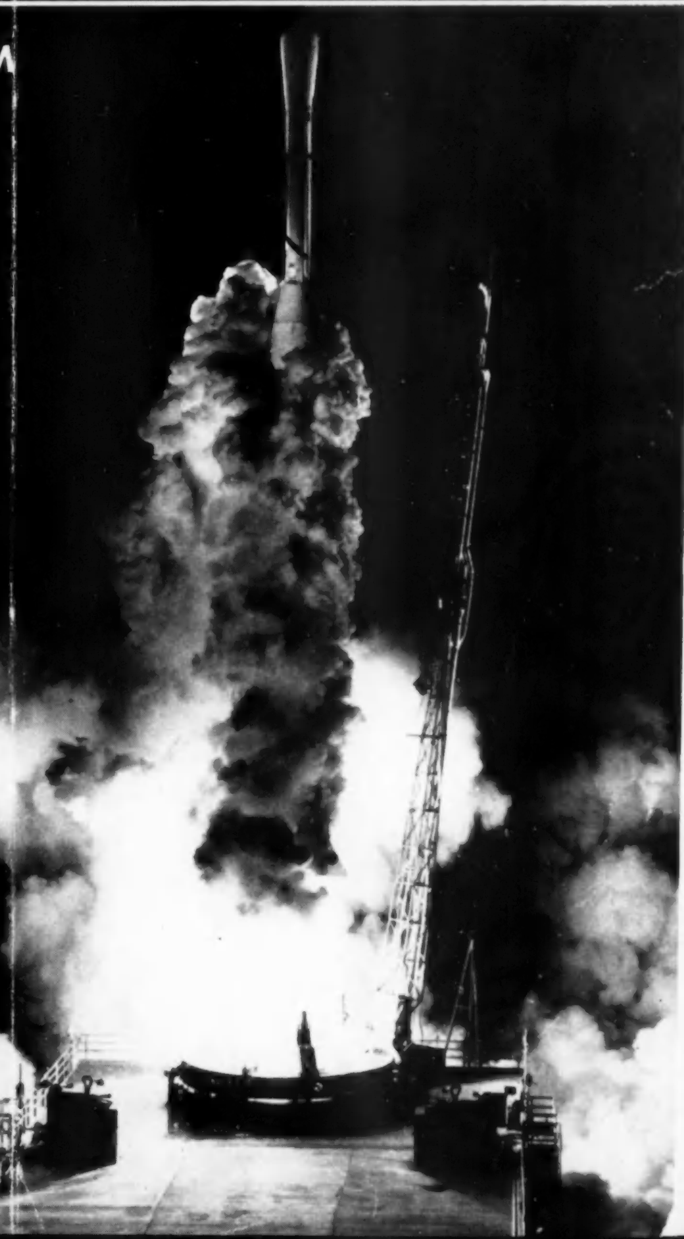

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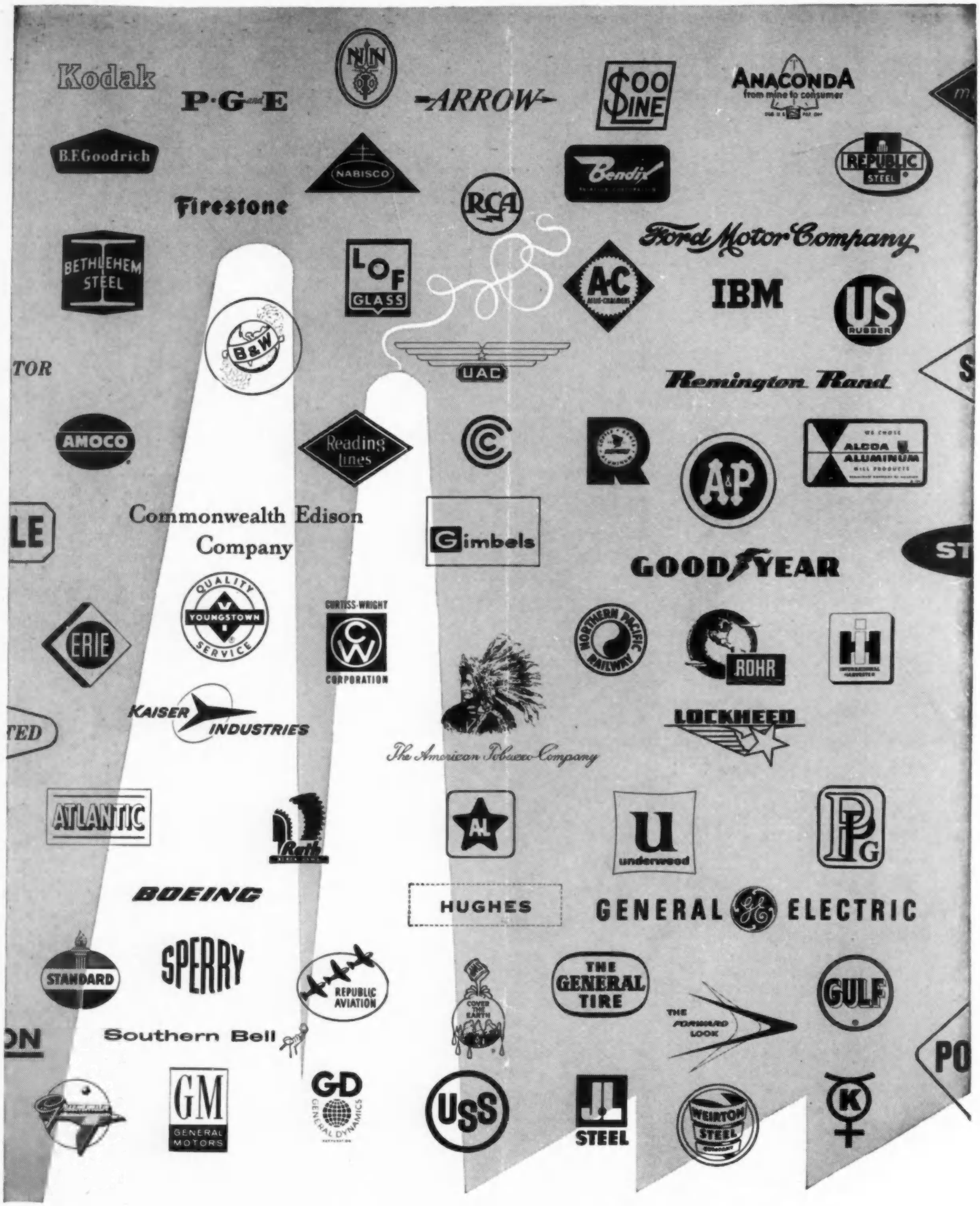
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Cover Photo is a view of the launching of the U.S. 280 pound meteorological satellite TIROS II. The three stage Delta rocket carrying the experiment was launched at Cape Canaveral. Photo courtesy of Amer. Tel. & Tel.

Photos, pages 562, 563 and 564 — Courtesy of Amer. Tel. & Tel.

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THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*

The Trend of Events

YOUNG MAN IN A HURRY . . . Listening to the policies that President Kennedy sponsors leaves one with the distinct impression that we are rushing into programs without sufficient exploration. Our economy has changed mightily since the New Deal came into being, and yet this does not seem to have been taken into the calculations of the Administration advisers blueprinting the New Frontier.

When President Kennedy refers to our recession as a deep depression, and calls for billions to lift our "sagging" economy, he is ignoring the economic facts of life as they have developed since World War II. Our industries have changed, and so have our yardsticks. Today there is no comparison between industry as it existed in the early days of the New Deal and the post-war period through which we have been passing.

Our economy has been in the throes of a scientific and industrial revolution which has produced many new industries that were not in existence at the time of the New Deal — industries that compete with old-established ones and have rendered others obsolete. So that in appraising the situation this must be taken into consideration. Yet, judging by the corrective suggestions made by President Kennedy, this seems not to have been done. Nor have their indices been updated.

For example, steel today does not hold the position as bell-wether of our economy to the extent that was true many years ago. It is meeting competition from aluminum and glass, as a glance at the massive construction of office buildings going on in our cities is clearly showing. This situation is being ignored in relating steel production to demand, which is now being satisfied by various alternative materials.

Nor does their claim to no growth jibe with the unprecedented income of the great bulk of our population, where the middle-class buying power has produced an enormous expansion in a completely new class of food products and consumer goods.

One has only to glance at the billions of dollars in growth represented by these industries to see what is wrong with the picture presented by President Kennedy's economists.

Again, using the 5 million unemployment figure as an indicator of severe depression is illogical when you consider that 60 million people are at work, and that 2 to 2½ million represent chronic unemployables at all times for one reason or another, even when our population was smaller.

Compare the 6.8% of today

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

with the 25% unemployment in the days of the great depression. And, while we are adopting measures to cope with this distress, there seems to be no attempt to work out reemployment plans for the workers.

Nor does there seem to have been any consideration given to the fact that changes in processes and mechanization have produced job dislocations which call for the training of workers to adapt themselves to new fields where enormous shortages exist, as can readily be seen from continuing newspaper advertisements even by the great companies, who have in the past never found it difficult to get all the people needed to keep operations rolling.

In this connection, it should be a matter of considerable interest to note that there is a great scarcity of men for key executive positions, which makes the work of those on the job very taxing indeed, and is in itself responsible for the slow-down of activity in many areas. Men can only do so much.

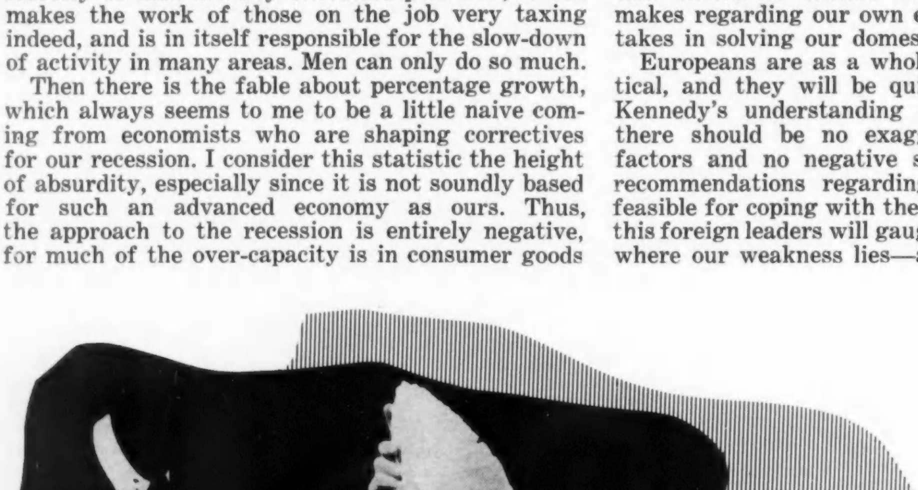
Then there is the fable about percentage growth, which always seems to me to be a little naive coming from economists who are shaping correctives for our recession. I consider this statistic the height of absurdity, especially since it is not soundly based for such an advanced economy as ours. Thus, the approach to the recession is entirely negative, for much of the over-capacity is in consumer goods production, much of which today is already on a gadget basis in oversold markets.

Instead we should ask, what happened to President Kennedy's suggestion about rebuilding our economy soundly by rehabilitating distressed areas, reclamation of waste lands and desalinizing to produce fresh water supplies, which would build assets, value and jobs of the right kind?

We were delighted when he referred to these in his earlier speches, and we hope they are not going to be side-tracked in favor of his new home building plan — an area where there are already signs that supply has outstripped demand.

In closing, I would like to say that if we are so worried about weakness in the foreign field as the President seems to indicate, then this Administration should be careful in the pronouncements it makes regarding our own economy and the steps it takes in solving our domestic problems.

Europeans are as a whole hard-headed and practical, and they will be quick to size up President Kennedy's understanding and realism. Therefore, there should be no exaggeration of unfavorable factors and no negative statements—but positive recommendations regarding the ways and means feasible for coping with the situation at home. From this foreign leaders will gauge our strength and know where our weakness lies—and they will gun for it.



Guest Editorial

By Paul J. Maynard

WHERE DOES JFK GET HIS INFORMATION?

A STORY going the rounds tells of a Russian pupil who, when asked where the United States stands, replied—"it is hovering on the edge of an abyss!" and when queried as to the position of Russia, answered—"it will pass the United States in six months!"

To listen to our newly inaugurated President, one might be led to believe that the last eight years of America's national existence have constituted a period of gross neglect and indifference with respect to our international affairs and our defense.

With all due respect to Mr. Kennedy, the impression he is giving is, to say the least, politically slanted and to say the most, downright distorted. In order to see how distorted this picture of complete negativism of Eisenhower's two terms is, it is necessary to look back to late 1952 and early 1953 and see just what the national situation was at that time.

When Mr. Eisenhower took office the United States was still engaged in the Korean War, or, as it was euphemistically described at the time, "police action." **This costly military engagement which the United Nations (largely represented by United States military personnel and equipment) fought with one arm tied behind its back, was brought on largely by inept statesmanship and neglect of our national defense in the years prior to 1950.**

In Mr. Truman's Lap

It is now generally agreed that Truman's Secretary of War, Louis Johnson adopted policies of skimping in our military preparedness programs which dangerously weakened our military power. Thus the Chinese Reds were convinced that the United States could put up little effective resistance against their invasion of South Korea. **Regardless of excuses or rationalizations, the acid test of diplomacy and military preparedness policies and programs is whether they produce war or peace. On this test the administration which preceded Eisenhower failed. Using this same test, Eisenhower's administrations were successful.**

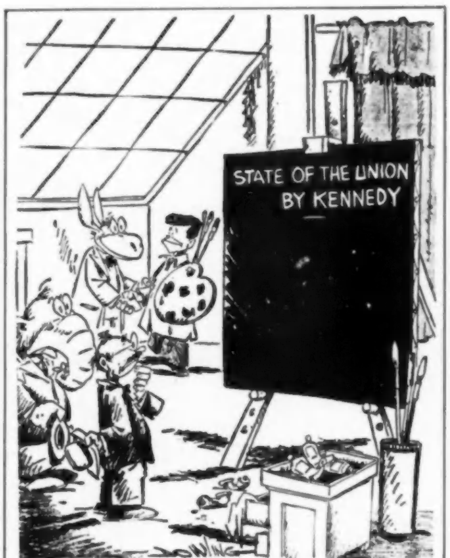
Thickening The Spread of Gloom—Why?

Today we hear doleful tales of how dreadful the world situation is, and that the enormity and gravity of international problems is staggering. **Yet, was the situation so much better eight years ago when we were still engaged in war? The answer to that question is definitely no.**

As Dickens said in the opening lines of "The Tale of Two Cities," the times were trying and troublous—much as today.

The truth of the matter is that most of the world problems never are solved finally and completely. **For President Kennedy to imply that they should have been solved and that the outgoing administration was neglectful in not solving them, is not cricket. To excuse in advance any failure on his part to make rapid progress in solving the world's problems by proclaiming that he inherited a mess is basically an unfair political tactic.**

The unfairness of this tactic lies in the fact that it is a distortion of the truth. It suggests that John Foster Dulles and Christian Herter were ineffective Secretaries of State and that Henry Cabot Lodge wasn't on his toes in representing and building up America's prestige in the United Nations. As a matter of fact these appointees of President Eisenhower turned in remarkably good performances in keeping the United States at peace and forcing the Communist Bloc to back down in such instances as in Lebanon, West Germany, Quemoy and Laos, to mention just a few. If Herter was ineffective, then why did President Kennedy appoint his Undersecretary of State to the high office of Secretary of the Treasury in his administration?



"It Seems Like an Awfully Dark Picture"

Belittling Our Defenses

In the matter of our military build-up, the impression also has been given (unfairly again, as we see it) by the new administration, that the Eisenhower team has lost ground militarily to the Russians and the Communist Reds. Actually the spending rate for the maintenance of our military forces has run in excess of $40 billion annually through the Eisenhower years.

This is roughly the same cost to us as a Korean War year, and approximately four times any Truman budget for arms in the pre-Korean years. In the words of one military affairs writer, during the Eisenhower years our "military force levels ascended to a high plateau, which was virtually an Everest compared to the molehill strength of the five Truman peace years."

● Such new weapons as the polaris missile, fired from atomic submarines and the Army Redstone Rocket have been examples of new weapons which have been developed during the years of "indifference, neglect and stagnation." **The truth is that President Kennedy has been far more fortunate than ex-President Eisenhower in the strength of the military establishment which he has inherited.** Our military posture is unquestionably the strongest it has ever been in peacetime.

One of the strongest features of our defense effort is that it has been built up gradually on a well-balanced basis made possible by the Eisenhower Administration's strongmindedness and unwillingness to be panicked into crash programs to meet the many so-called all-out emergencies that critics were constantly announcing.

Eisenhower vs. Truman on Growth

With respect to the nation's economic well-being, the new Democratic Administration also seems to be bent on playing the political game of "growthmanship." **Thus, while the United States has experienced unprecedented gains in output in national income and in total employment in the 1952-1960 period, it is claimed that we are not growing rapidly enough. ► Actually, gross national product for 1960 was at an all-time high of over $500 billion versus $347 billion in 1952. ► Personal income rose again in 1960 to over $400 billion compared with $273 billion in 1952. ► While the Federal Reserve Index of Production, based on 1957 as 100, is currently around 105, it was 84 in 1952. ► In connection with employment, the figure was 66,681,000 in 1960 compared with 61,293,000 in 1952.**

While it is always possible to say that we "might have done better," there is no dodging the fact that we have done well during the last eight years. We cannot be complacent about our rate of growth or about the fact that because of the increase in the civilian labor force, the unemployment ratio has increased to a relatively high percentage of 6.8%. **However, it is patently unfair to compare the rate of growth of the United States with that of less advanced countries, or with countries which have been recovering from the destruction of the war years (like Japan, West Germany or Soviet Russia).**

Here again, the *(Please turn to page 580)*

The Market, Business And Profits

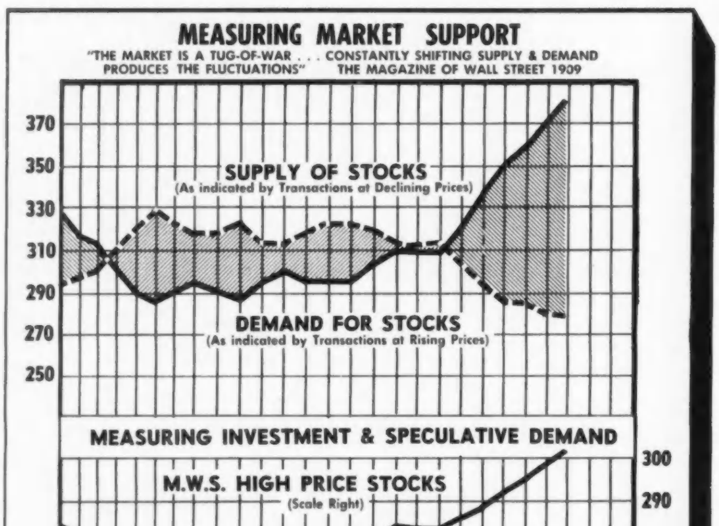
While recession continues, the market is at levels which would seem more appropriate to a well-advanced business boom in an inflationary environment. Adequate recovery in corporate profits is not assured. A mid-winter reaction is due. Caution and stress on selectivity are advised.

By A. T. MILLER

WITH the number of daily advances in individual stocks exceeding the declines by a ratio of roughly 3 to 2, the over-all rise in stock prices was extended in active trading during the past fortnight. The interruptions have been slight and brief so far in 1961, with the exception of a January 19-26 dip of about 3.4% in the rails, which came after a sharp spurt and was partly made up by last week's close.

The persistent rise in utilities was extended in a succession of new postwar highs. At the best closing mark — which was shaded in a boiling, churning market in the fortnight's final trading session — the Dow industrial average had pushed through last August's rally top and was close to a test of the theoretical resistance level at June's recovery high of 656.42. At this time it remains some 32 points or almost 5% under the January, 1960, all-time peak. However, the picture thus painted is misleading.

Some more comprehensive measures of industrial equities are 'in the clear," leaving no past resistance level for reference. Our broad weekly index — industrials, rails and utilities — is more advanced than "the Dow," and our index of high-priced stocks only a nominal percentage below its 1959 top. Large numbers of individual industrials are up in "the wild blue yonder."



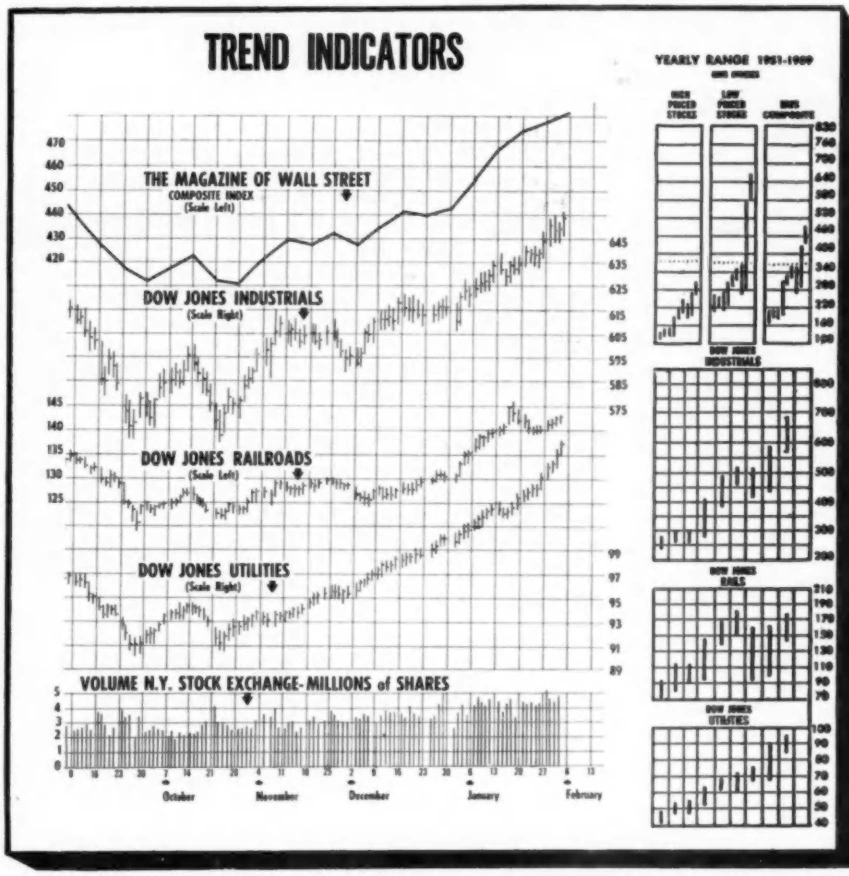
Situation Highly Unusual

This situation is most unusual. In the past, the industrial list has not been able, following business recession, to approximate or exceed its previous top before the recognizable start of economic revival. In 1958, for example, it did not get into new high ground until September, or about five months after the low point in industrial activity. In the present instance the low point is still conjectural, the vigor of the subsequent revival a question mark.

Thus, the market reflects remarkably high confidence — quite possibly over-confidence — in business potentials for the second half, and for 1962 and beyond, although the present vista is murky at best. At the same time, bullish market letter writers "talk things up" out of both sides of the mouth. To wit: "The Kennedy policies are going to be reasonably orthodox; the Kennedy policies are going to be inflationary." Obviously, they cannot be both. So far, they strike us as more orthodox than experimental or inflationary.

The President's indicated view of business prospects from here into 1962 is a good deal more sober than the in-

vestment-speculative view reflected in the market. Maybe he prefers at this stage to exaggerate the country's "plight." **At any rate, his urgent tone contrasts with mild action on the executive side in a "package" of anti-recession moves in which the possible stimulus appears rather limited.**



► These include principally a slight cut in the interest rate on Federal-guaranteed mortgages; earlier distribution of a $258 million veterans' insurance dividend; a few selective boosts in defense procurement; lower rates on Federal loans to communities for public works and some liberalization of elegibility requirements; a speed-up of existing Federal and Federally-subsidized public works; action for moderate easing of long-term money rates; and increased distribution of surplus and other foods to the needy.

► Other programs — some not formulated — will require time-consuming Congressional action and involve controversy in some cases. These include increased medical aid for the aged; a boost in minimum wages; a temporary increase in unemployment benefit payments; a development-aid program for distressed areas; more Federal aid for education; higher Social Security benefit payments; tax incentives to spur business capital investment; and farm legislation.

Most of these are Welfare-State measures which Kennedy, or any other Democrat in the White House, would favor even if business were now booming. However, there is important promise of long-run economic benefit in (1) increased business depreciation allowances and (2) a broadened program — partly under Federal grants, mainly privately-financed — of urban renewal.

Where Is The Money Coming From?

No doubt other moves will be made if the recession does not end within several months. Nobody can say what the total cost of the "New Frontier" programs might be; but fears on this count may be exaggerated. Some of the program to date is self-financing. Note also that the President intends to seek closing of some tax "loopholes" to offset revenue loss from promised tax incentives for capital expansion. Note his statement that any new spending proposals he sends to Congress will be accompanied by revenue proposals to raise the money. ► Note that he is definitely pledged to defend the integrity and buying power of the dollar; and that foreign confidence in the dollar has already begun to recover, as indicated by the relapse in the market price of gold in London and a sell-off in gold-mining stocks.

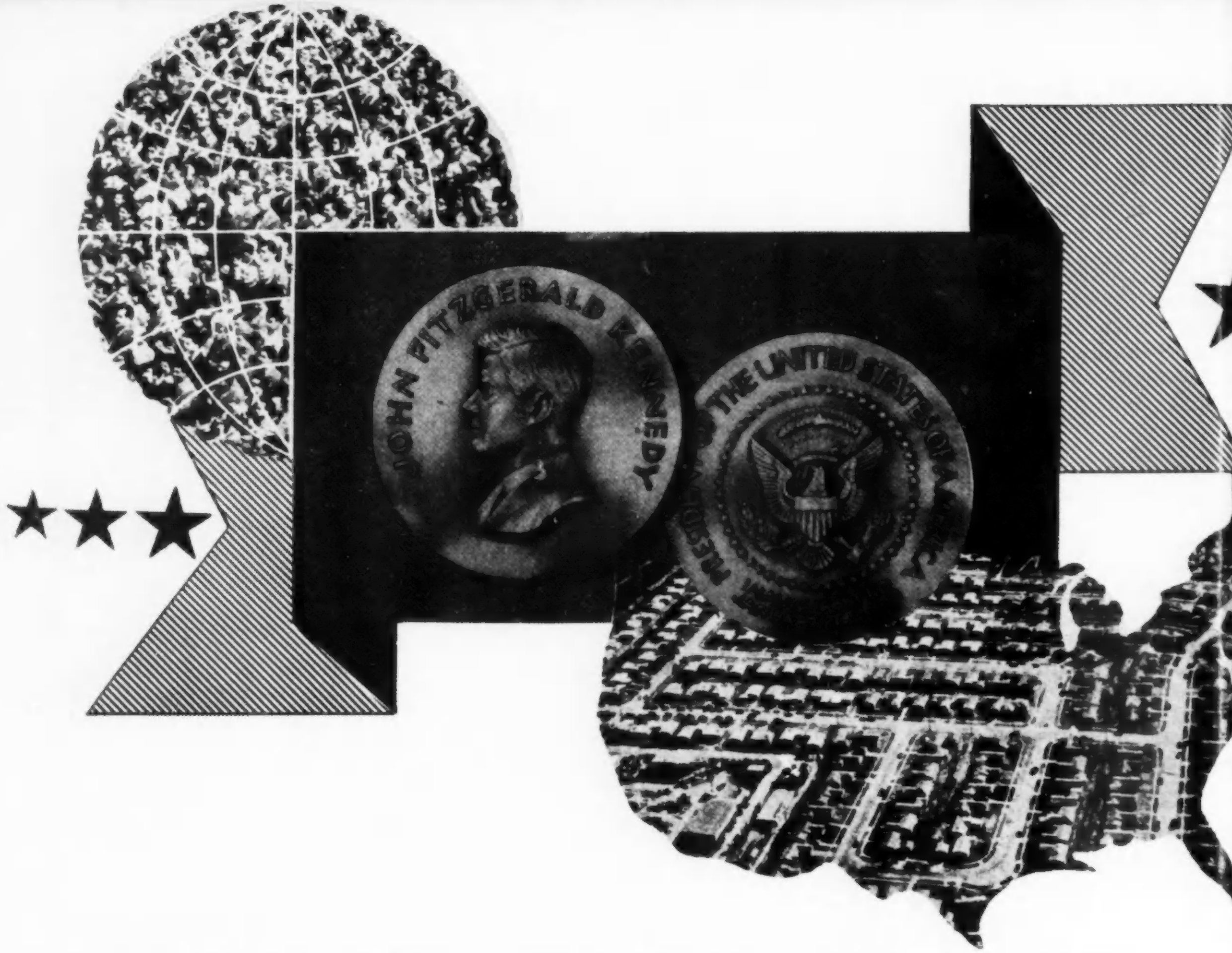
It will not be easy to check creeping wage-price inflation, although the President's influence will be for restraint; but this type of non-monetary inflation cannot put the market on a one-way street. Indeed, under the conditions we now face, it tends to squeeze corporate profits. Since when is a profit squeeze a logical basis for higher stock prices?

Investors should be reminded that, regardless of the gradual uptrend in the consumer price index, the stock market lost ground in each of the years 1946, 1948, 1953, 1957 and 1960.

The business news remains bleak, featured by (1) a further fall in manufacturers' new orders for duarble goods, cutting backlogs to the lowest level in ten years; (2) more inventory liquidation; (3) a deepening slump in automobile activity. With the market higher and profits sagging, price-earnings rations have become steadily more unrealistic.

Recent heavy trading activity and other technical indications could suggest an over-bought market. Certainly a mid-winter reaction appears due. Measured from January-February highs to February-March lows, there has been one in each of the 15 postwar years. A few were slight, some sizable. Over the period cited they averaged about 5.5% for the industrial average or equal to roughly 36 points if applied to the present level. Better opportunities for selective buying should be ahead.

—Monday, February 6.



KENNEDY'S ECONOMIC PROGRAM

Has Movement — But Shows Lack of Spade Work

By MALCOLM STEWART

- **Are we going to continue to follow the Keynes theory of "spending ourselves into prosperity?" – where will we stop?**
- **And what about Galbraith's philosophy that a bureaucracy can spend our money better than we can as individuals?**

PRESIDENT KENNEDY'S State of the Union message was a grim document calling for a many-sided program of action to meet what he described as an increasingly critical position abroad and a perilous economic situation at home.

He claimed that "the American economy is in trouble" while in the fight against Communist Imperialism "the tide of events has been running out and time is not on our side."

But, he said, "the Administration does not intend to stand helplessly by." And he then proceeded to outline in very general terms a wide variety of action programs which he contends can arrest the recession, turn the economic curve upward and repair the military weaknesses of the United States.

Kennedy followed this message up with a "Program of Economic Recovery and Growth"—popularly known as the Economic Report—in which he added some detail. He urged the Congress to give the economy a shot in the arm by raising Social Security benefits and extending jobless pay and announced that he was taking executive action to speed Federal spending on several fronts in a sweeping anti-recession program.

There was serious concern in some quarters as to just how thoroughly the new President and his economic aides had explored the economic situation—in depth—before rushing into print with a hodgepodge of measures whose effectiveness might be very limited. Kennedy himself gave some substance to the belief that he might be "shooting from the hip" when he said that if the measures he suggested didn't work, he would come up with some more.

Many will disagree with the extremely gloomy

picture of the American economy painted in the State of the Union message. It is acknowledged that business is not as good as it should be. But there are serious doubts that it is in as deep trouble as Kennedy and his advisers contend.

It is possible that the new Administration has misinterpreted some economic signs, failing to take into account technological changes. To say that the economy is half dead because steel is producing at only 50 percent plant capacity is to ignore the increasing use of substitute materials for purposes formerly filled exclusively by steel. **It is like saying that virtually no one in the U.S. is travelling because railroad passenger figures are drastically low. They're travelling, all right—they're simply using airplanes now.**

There are other question marks overshadowing the economic planning performance of the new Administration.

Even if the program is wise and sound:

► **How many of the measures requiring legislative approval would the Administration be able to get through the Congress?** The narrow five-vote margin by which Speaker Sam Rayburn won his fight to enlarge the House Rules Committee for Kennedy indicated that the Administration program has no easy road ahead on Capitol Hill.

► **How much would it all cost?** This was the big question for which nobody in the entire Administration had any clear cut answer. Kennedy offered the hope that some of the increased expense could be offset by economies and greater efficiency, but the price tag obviously was going to be in the billions. One Administration official said a good guess would be about $5 billion.

— **Kennedy claimed** that the program "in itself" would not unbalance the fiscal 1962 budget submitted by President Eisenhower if the Congress approved the additional revenues asked by the former President. But he acknowledged, at a news conference, that he did not expect the Congress to approve all these—particularly the suggested increase in postal rates.

This type of statement tended to lend an Alice-in-Wonderland atmosphere to the fiscal juggling.

— **The basic economic philosophy** being used by Kennedy seemed to be closely related to that of the late John Maynard Keynes, the British economist who believed the government could spend its way to prosperity. Kennedy asserted that the proposed measures should stimulate the economy sufficiently to produce adequate tax revenue to pay the cost.

► **The tactics were clear**—to immediately infuse into the economy a large amount of money by speeding up and increasing payments to those who would spend quickly—the unemployed, veterans, and others who could be expected to get rid of the money as fast as they received it.

— **Another big question** was what would happen if, after Kennedy had spent at once the money supposed to be spread over the entire year, the economy still failed to respond. The bind would be tighter than ever.

— **It was basically a pump-priming operation** using a variety of make-shift devices which might turn out to be self-defeating.

In addition to the cost of the economic measures, the nation must reckon with the cost of increasing its military strength, which Kennedy contends that Eisenhower neglected in several important areas.

► The new President has ordered immediate acceleration of the Polaris Submarine program, ● an increase in the airlift capacity of the armed forces and a general speed up in missile developments. ● He has ordered, too, a complete reappraisal of the entire defense program and **strategy which undoubtedly will result in decisions to ask Congress for greater appropriations for the military forces.**

What of Pledge of Sound Dollar?

Whether one agrees or disagrees with Kennedy's assessment of the international and domestic situations, one cannot fail to be concerned as to whether he can carry out a major part of his program and still fulfill his pledge to keep the dollar sound.

There are obviously inflationary pressures inherent in a program of the sort he has outlined.

So far as concerned the gold and dollar reserve difficulties of the United States, Kennedy made it clear that here, too, he follows Keynes. He said he believed that the remedy to this imbalance would be found in general stimulation of the economy rather than by imposing controls.

"Efficient expansion at home, stimulating the new plant and technology that can make our goods more competitive, is also the key to the international balance of payments problem," he said in the State of the Union message.

Kennedy reminded speculators in gold that he believed there was nothing sacred about the gold cover for the currency—that is, the requirement that the Treasury hold gold equal to 25 percent of the Federal Reserve System's notes and deposits. He said that, if need be, this gold would be used to stop a run on the dollar.

"In short," said Kennedy, "we need not—and we shall not—take any action to increase the dollar price of gold from $35. an ounce—to impose exchange controls—to reduce our anti-recession efforts —to fall back on restrictive trade controls—would weaken our commitments around the World.

"This Administration will not distort the value of the dollar in any fashion. That is a pledge."

Brave words—but the question was whether inflationary pressures inherent in the pump-priming program might not prove too much for the new Administration.

● Kennedy's approach to the gold and dollar gap departed from the approach verging on panic of the Eisenhower Administration. His advisers obviously felt the situation could be corrected by less Draconian measures.

One of Kennedy's first actions was to lift the restrictions on the number of dependents of military servicemen abroad. Eisenhower had ordered a cutback in the numbers to save dollars.

● Kennedy's action rejecting exchange controls as a measure to right the dollar imbalance leaves U. S. corporations free to continue investing abroad. But the President is recommending closing tax and tariff loopholes that promote "undue" spending abroad.

● The biggest customs leak is the $500 in goods that a tourist can bring home duty-free. And the largest tax incentive lies in the ability of corporate

subsidiaries overseas to escape taxation by the U. S. of their profits until they return here, encouraging expenditure of the bulk of earnings overseas. These presumably will be the targets of new regulations.

● The State of the Union message and the Economic Report contained no particular surprises, since Kennedy had pretty well forecast his course. But the President made it clear that additional steps will be taken if needed to stimulate the economy.

● In the Economic Report he said: "I am proposing today measures both to alleviate the distress arising from unsatisfactory performance of the economy and to stimulate economic recovery and growth. If economic developments in the first quarter of this year indicate that additional measures are needed, I will promptly propose such measures."

In the Economic Report, Kennedy listed 12 "measures for economic recovery" and four programs for "promotion of economic growth and price stability."

Among the latter were to be found, in general terms, his ideas for tax incentives.

Here are the four "promotion" measures:

1. **Special tax incentives**—"Among the reforms of the Federal Tax System which I expect to propose at a later date is a modification of the income tax laws to provide additional incentives for investment in plant and equipment. To avoid a net revenue loss, I will also recommend measures to remove several unwarranted special tax benefits and to improve tax compliance and administration. It should be possible to reform the tax system without reducing revenues and without violating the basic principles of fairness in taxation."

2. **Investment in human resources**—". . . in the legislative programs that I will submit in the days to come, I will emphasize strongly programs to raise productivity of our growing population by strengthening education, health, research and training activities" because "modern machines and advanced technology are not enough unless they are used by a labor force that is educated, skilled and in good health."

3. **Investment in natural resources**—"Our water resources programs, including flood control, irrigation, navigation, watershed development, water pollution control—and above all, water desalinization—require priority attention. . . . Improvement of our forest resources will require expanded government credit sources . . . and accelerated programs for economical production of energy from nuclear sources, including nuclear fusion."

4. **Productivity and Price Stability**—"I shall issue an executive order establishing the President's Advisory Committee on Labor-Management Policy, with members drawn from labor, management and the public" to advise the President on actions "which will promote free and responsible collective bargaining, industrial peace, sound wage policies, sound price policies and stability, a higher standard of living, increased productivity and America's competitive position in world markets."

For Economic Recovery

The twelve "measures for economic recovery" are those recommendations and actions which the President hopes will stimulate the economy at once. They are:

1. **Monetary policy and debt management**—The President said long-term interest rates should decline but "further declines in short-term interest rates, under present conditions, would lead to a further outflow of funds abroad, adding to the deficit in our balance of payments." He said the Treasury Department and Federal Reserve System were working "to further the complementary effectiveness of debt management and monetary policy." He claimed that the apparently contradictory objectives of "checking declines in the short-term rates that directly affect the balance of payments and increasing the flow of credit into the capital markets at declining long-term rates of interest to promote domestic recovery" could be achieved by careful management.

2. **Housing and community development**—Kennedy disclosed he has ordered a reduction from 5¾% to 5½% in the maximum permissible interest rate on FHA-insured loans, and is having the Community Facilities Administration cut interest rates on loans to public bodies for construction of public facilities. He said he expected private lenders, who he said agreed that the cost of mortgage credit was too high, would cooperate in lowering it.

3. **Temporary unemployment insurance extension**—The President said he will ask Congress to enact a "temporary program for extending the duration" of unemployment benefits up to a maximum of 39 weeks overall. "Where the state law already provides benefits for longer than 26 weeks, the Federal Government would pay, for the period of the emergency, for all weeks of benefits beyond 26, up to a maximum of 39 weeks overall, thus freeing state funds for much-needed increases in benefit amounts." By the end of March, Kennedy said, he would recommend to Congress "a program of legislation designed to revise and strengthen the benefit and financing provisions of the whole unemployment compensation system."

4. **Expansion of U. S. Employment Service**—"I am directing the Secretary of Labor to take necessary steps to provide better service for unemployment insurance claimants and other job applicants . . ."

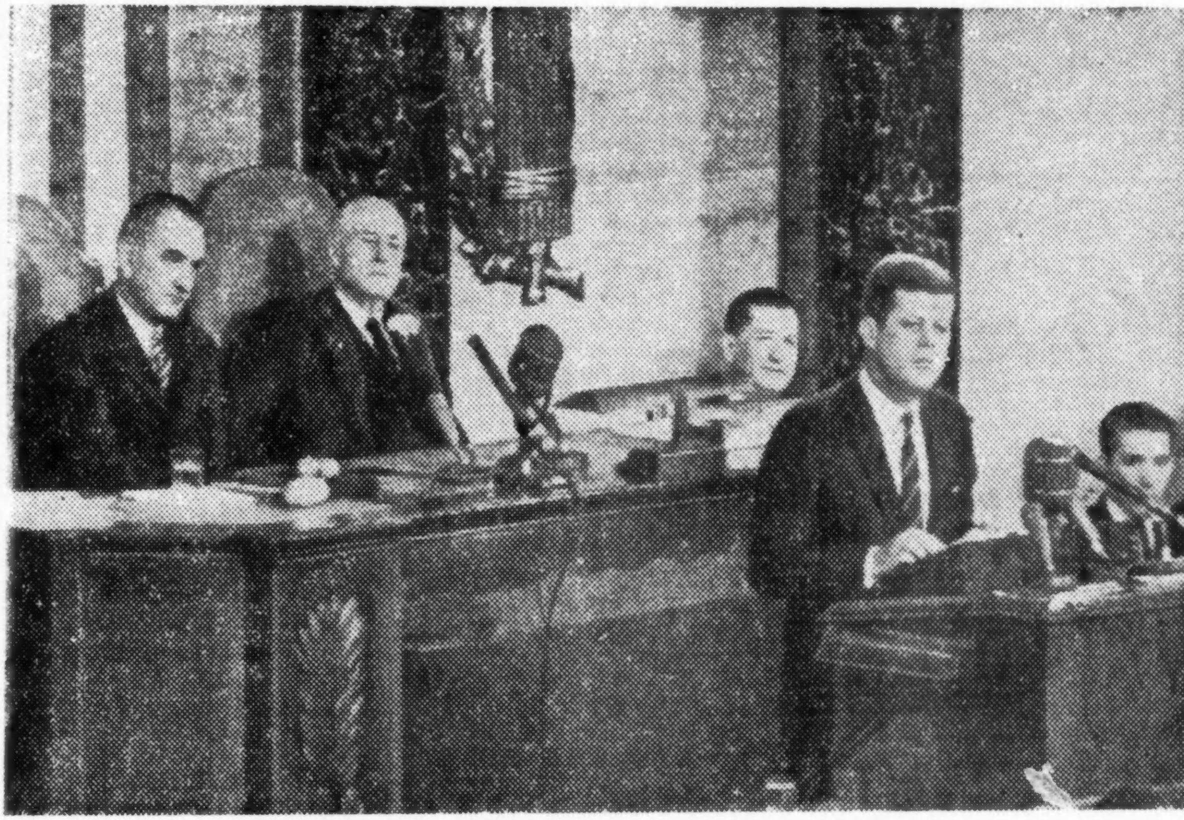
5. **Aid to dependent children of the unemployed**—"I recommend that the Congress enact an interim amendment for the aid to dependent children program to include the children of the needy unemployed."

6. **Distressed area redevelopment program**—Kennedy urged immediate Congressional action on legislation to provide loans, technical assistance and grants for private projects and public facilities in such areas.

7. **Distribution of surplus food**—The President instructed the Secretary of Agriculture to inaugurate a food stamp plan for needy families in six depressed localities and ordered improvements in the school lunch program.

8. **Improvements in the old-age,** survivors and disability insurance program—The President urged Congress to raise the minimum monthly Social Security benefit from $33 to $43, increase aged widows' benefits, broaden disability insurance, add more workers to the eligibility rolls. He said all this could be paid for by increasing the payments by ¼ of one per cent per month.

9. **Early payment of veterans' life insurance dividends**—The Veterans Administration was instructed



President John F. Kennedy delivering his State of the Union Message to Congress.

to "advance the payment of the 1961 dividend of $258 million on National Service Life Insurance and U. S. Government Life Insurance policies" to get that money into trade channels at once instead of spreading it over the entire year.

10. **Minimum wage increase and expanded coverage**—"I urge the Congress to raise the minimum wage immediately to $1.15 and to $1.25 within two years." Coverage "should be extended to several million workers not now covered."

11. **Accelerating procurement and construction**—Kennedy ordered the Secretary of Commerce to "make available to the states immediately the entire balance of Federal-aid highway funds scheduled for this fiscal year, approximately $724 million. He also directed all government agencies to speed up procurement and construction plans, particularly where this would alleviate unemployment, and directed cabinet and agency heads to see if projects already underway could be speeded up by additionally appropriated funds.

12. **Government procurement in labor surplus areas**—"I have today sent a directive to the Secretary of Defense, the Secretary of Labor and the General Services Administration requesting prompt steps to improve the machinery by which federal contracts can be channelled to firms located in labor surplus areas."

These, then, are the basic elements of Kennedy's broad blueprint for giving the economy a shot in the arm and then trying to formulate programs to sustain growth at higher rates of increase than in recent months and years.

"The nation cannot—and will not—be satisfied with economic decline and slack," the President said in the early part of his economic report. "Realistic aims for 1961 are to reverse the downward trend in our economy, to narrow the gap of unused potential, to abate the waste and misery of unemployment, and at the same time to maintain reasonable stability of the price level. For 1962 and 1963 our programs must aim at expanding American productive capacity at a rate that shows the world the vigor and vitality of a free economy. These are not merely fond hopes, they are realistic goals. We pledge and ask maximum effort for their attainment."

What Does He Mean?

These are brave words. And we wish Mr. Kennedy well since the welfare of all of us depends upon his success. **But much remains to be explained, especially his ominous declaration in the State of the Union message that "before my term has ended, we shall have to test anew whether a nation organized and governed such as ours can endure. The outcome is by no means certain."**

To this he added, "we have no greater asset than the willingness of a free and determined people, through its elected officials, to face all problems frankly and meet all dangers free from panic or fear." Does this mean that we are a free people because we can elect our own dictators, whereas the people of the Soviet Union are in slavery because they cannot?

There's still a lot of fog on the "New Frontier."

PART ONE

WHAT 1960 ANNUAL EARNINGS REPORTS REVEAL

—Looking to 1961

By ROBERT B. SHAW

LIKE parents eagerly or fearfully awaiting their children's report cards, investors look for corporations' final earnings statements as confirmation of their already-suspected hopes and worries. For full-year results are usually pretty clearly foreshadowed by interim reports, and surprises in the year-end statements are infrequent. Still, there are a few industries, like the retail stores with their Christmas trade, that usually make or break themselves in the final quarter, and it is also possible that the year's showing may be affected drastically by some tardy special charge. The full year results also wipe out seasonal variations and are largely determinative of dividend policy. Finally, of course, investors who do not have time to watch interim results will regard the final statements as the essential measure of corporate progress.

But it is probable that these full-year reports will be watched with even greater than normal interest at the present juncture. For business is poised at a sensitive spot. It is already clear that 1960 earnings will slow moderate set-back from the 1959 level, and **within our cult of constant growth,** any failure to exceed the previous year's performance is psychologically disturbing. A careful analysis of last year's income statements may provide a clue as to whether the widely held expectation of recovery by mid-summer is a sensible premise or merely a pious hope.

Sales Growth Checked; Expenses Rigid

Sales volume last year did show an increase for most companies — or at least for about two-thirds of those whose results are summarized on the accompanying table — but not enough to compensate for the almost invariably higher costs. The unpleasant consequence was a nearly universal decline

in profit margins, leaving only a fortunate handful with a higher carrythrough of gross to net.

Constantly rising costs, particularly wages, have been built into the operations of nearly every industrial company. These can be compensated for by higher prices, or offset by heavier physical volume. 1960, however, proved a difficult year either for expanding sales or passing higher costs on to consumers. Overcapacity has become commonplace, particularly among machinery, metal and natural resource industries, so that tougher competition has made it hard to hold the line on prices, let alone raise them.

A few companies were, of course, able to buck the trend. These included members of several industries, like the oils, which are in the process of recovery from more severe private recessions of their own, and others which benefited from special circumstances. (See the article on "The Trend-Beaters" in our January 28 issue.) But, by and large, the results which have just been noted were depressingly typical.

Steel Did Well To Hold Its Own

These observations will take on more meaning when applied to specific companies.

One of 1960's biggest disappointments was the absence of any sharp come-back in the steel industry, after the protracted 1959 strike. A year ago the steel companies were expected, not merely to reap a profitable harvest of orders that would swell their own profits, but also to spark a vigorous recovery in the entire economy. Neither of these hopes came close to realization.

To be sure, the first quarter was a very favorable period for steel, but after the most severe strike-engendered starvation was satisfied, manufacturers showed little inclination to rebuild inventories to their former level and have evidently counted upon the ability of the mills to fill further orders promptly.

As a consequence, sales of most of the steel makers were only very slightly higher last year than for 1959; several, including **Youngstown Sheet & Tube** and **Republic**, even showed declines. Creditably, however, most members of the industry were able to maintain profit margins, and thus realized final earnings very little changed from 1959. **Inland**, with sales up from \$705 to \$707 millions and net per share reduced nominally from \$2.77 to \$2.68, was typical. **Bethlehem** showed some improvement, lifting net 8¢ a share to \$2.52 (narrowly covering the \$2.40 dividend) on a 6% gain in sales volume. Better still, **U.S. Steel**, with sales up a mere 1%, was able to achieve a substantial improvement in earnings—to \$5.17 per share from \$4.25 in 1959.

Such results as these show that the furnaces retained in operation must be very much more efficient than those shut down, and this means that even a moderate recovery in volume could provide plenty of earnings leverage. On the other hand it must be remembered that the wage increases won in the strike were not fully effective until December, when they boosted costs by an estimated \$1.90 per ton. The low operating rate will make it difficult to pass these higher costs on to consumers. In this light, steel stocks can hardly be considered particularly attractive at present.

Caterpillar Rescued By Its Export Market

If **Caterpillar Tractor** proves to be typical of the heavy machinery industry, 1960 results will be distinctly discouraging. Caterpillar's sales last year fell 3½% from \$742 to \$716 million; at the same time the profit margin suffered the familiar squeeze and net per share dropped to \$1.54 from \$1.68. Chairman Neumiller attributed this decline to reduced highway and construction activity, and a slower pace in mining, lumbering and materials handling. One would have to put very strong faith in political panaceas to expect a major recovery in any of these areas during the present year.

But the Caterpillar results contained a redeeming ray of light. While domestic sales dropped a jarring 21%, foreign business climbed a steeper 26%. This means that the export market, including many countries with a more vigorous economy than here in the States, now accounts for an impressive 48% of total sales. While profits are not segregated it is a fair bet that Caterpillar now earns more from foreign than domestic business. Most other machinery companies are following this lead, if at a little slower pace, and opportunities in the export market could largely compensate for somewhat slower conditions here at home in the year ahead. Just the same, Caterpillar looks rather generously priced at 20 times its 1960 earnings.

Office Equipment Among The Trend-Beaters

Among more specialized machinery manufactuers **Dresser**, very closely tied in with oil and gas well drilling, enjoyed a modest, 6% recovery in sales volume but suffered a simultaneous profit squeeze that left net per share almost unchanged at \$1.93. The outlook here cannot as yet be considered bright, but the price-earnings multiple (13 times) is modest in the present market. Almost immune from the cyclical pattern, **IBM** was able to turn in a 10% sales increase which, taken with a narrow improvement in the profit margin, lifted net per share to \$9.18 from \$7.97 a year ago. The announcement of the proposed 3 for 2 split has just given this issue a new speculative flurry.

Pitney-Bowes, although very much smaller than **IBM,** has many points in common with it, and made a very similar fiscal performance last year, expanding its earnings to \$1.27 from \$1.05 a share. In contrast with some other office equipment companies still heavily engaged in research, both of the organizations just named have "arrived" in the sense that they already dominate important existing markets. But while it seems almost as irreverent for a security analyst to question IBM as if he were to condemn motherhood, recommendation of this issue at 80 times earnings or even Pitney at a more modest 35 would require considerable soul-searching.

Westinghouse Duplicates 1959 Results

Among companies in the electrical equipment field, **Westinghouse** turned in an earnings performance probably a little better than had been expected. Sales were up a trifle, and net per share duplicated last year's \$2.22 (which included a 20¢ tax refund). Sales of consumer products are believed to have dropped about 5% in the year just ended, which

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales (Millions) 1959	Net Sales (Millions) 1960	Net Profit Margin % 1959	Net Profit Margin % 1960	Net Per Share 1959	Net Per Share 1960	Net Per Quarter 1960 1st	Net Per Quarter 1960 2nd	Net Per Quarter 1960 3rd	Net Per Quarter 1960 4th
Air Reduction	$200.6	$202.4	7.4%	7.2%	$3.81	$3.73	$1.06	$ .97	$ .95	$ .75
Allied Chemical	719.6	765.8	6.9	6.6	2.51	2.57	.68	.87	.53	.49
American Motors	869.8	1,057.7	6.9	4.5	3.37	2.68	.68	.80	.95	.28
Armour & Co.	1,869.8	1,735.5	.7	.9	2.73	3.10	—	1.35[1]	—	1.75[1]
Avco Corp.	306.0	322.7	3.1	3.1	.95	.97	.20	.30	.20	.27
Bendix Corp.	689.7	792.2	3.9	3.3	5.37	4.88	1.08	1.10	1.06	1.65
Bethlehem Steel	2,055.7	2,178.1	5.7	5.5	2.44	2.52	1.10	.62	.24	.56
Carrier Corp.	263.4	256.8	3.1	1.9	3.62	2.03	.14	d.86	1.89	.85
Caterpillar Tractor	742.3	716.0	6.2	5.9	1.68	1.54	.32	.42	.45	.36
Deere & Co.	542.5	468.5	8.9	3.7	7.02	2.57	.46	.74	.13	1.24
Diamond Alkali	137.8	138.3	8.2	8.4	3.79	3.87	.99	1.20	.98	.70
Douglas Aircraft	1,174.0	884.0	d3.8	d1.6	d8.86	d5.08	d1.82	d.48	d3.43	.63
Dresser Industries	232.3	245.0	3.9	3.6	1.95	1.93	.47	.35	.55	.56
Firestone Tire & Rubber	1,187.7	1,207.2	5.4	5.3	2.45	2.41	.51	.64	.59	.67
Freeport Sulphur	53.2	53.0	27.2	24.9	1.93	1.75	.42	.44	.41	.48
General Motors	11,233.0	12,700.0	7.7	7.8	3.06	3.35	1.14	1.01	.30	.90
Hooker Chemical	149.8	149.8	8.9	8.4	1.80	1.70	.40	.46	.39	.46
Inland Steel	705.0	707.1	6.8	6.6	2.77	2.68	1.07	.82	.29	.51
International Bus. Machines	1,309.8	1,436.0	11.1	11.7	7.97	9.18	1.92	2.27	2.32	2.68
International Harvester	1,725.6	1,683.3	4.8	3.2	5.66	3.40	.89	.99	.63	.89
Jones & Laughlin	765.6	778.7	3.8	4.2	3.58	4.04	2.22	1.02	.40	.41
Kaiser Aluminum & Chem.	435.5	406.5	5.1	5.6	1.17	1.20	.41	.21	.31	.27
Kennecott Copper	437.2	496.4	13.1	15.6	5.19	7.00	1.65	2.21	1.82	1.32
Libbey-Owens-Ford Glass	306.7	294.0	17.5	14.6	5.13	4.18	1.31	1.12	.60	1.15
Monsanto Chemical	875.0	890.5	8.5	7.5	2.80	2.49	.69	.75	.56	.48
Morrel (John) & Co.	436.3	511.8	1.4	.6	5.68	3.17	—	2.04[1]	—	1.13[1]
National Distillers & Chem.	578.3	580.1	4.5	3.5	2.36	1.92	.54	.50	.44	.43
Owens-Corning Fiberglass	211.3	218.1	7.6	6.7	2.43	2.19	.60	.58	.55	.46
Phillips Petroleum	1,163.0	N.A.	9.0	N.A.	3.05	3.27	.75	.76	.79	.93
Pitney-Bowes Inc.	57.5	66.0	7.6	8.4	1.05	1.27	.27	.27	.33	.40
Rayonier Inc.	129..5	129.1	10.3	7.3	2.35	1.63	.46	.57	.37	.23
Raytheon Co.	494.2	539.9	2.7	2.1	3.89	3.01	.46	.57	.50	1.48
Republic Steel	1,076.8	1,053.8	5.0	5.1	3.43	3.36	1.80	.84	.47	.26
St. Regis Paper	505.6	536.2	5.9	4.0	2.98	1.91	.60	.60	.38	.23
Scott Paper	297.1	313.2	8.3	8.8	3.08	3.40	.83	.83	.79	.95
Shell Oil	1,809.9	N.A.	8.1	N.A.	2.43	2.39	.57	.57	.58	.67
Sinclair Oil	1,232.2	N.A.	3.6	N.A.	2.96	3.41	.79	.61	.84	1.17
Smith Kline & French Lab.	134.9	144.5	18.5	16.6	1.72	1.64	.40	.43	.43	.38
Standard Oil of California	1,564.8	N.A.	16.2	N.A.	4.01	4.21	.96	1.67	1.12	1.06
Standard Oil of New Jersey	8,714.0	8,890.0	7.2	7.7	2.93	3.18	.79	.67	.86	.87
Stevens (J. P.) & Co.	459.4	512.6	4.0	2.9	4.52	3.65	1.01	1.10	.81	.73
Union Tank Car	115.5	115.3	5.6	6.7	1.87	2.20	.56	.53	.58	.54
United Engineering & Fdry.	62.7	82.1	9.7	6.0	2.38	1.93	—	.95[1]	—	.98[1]
U.S. Steel	3,643.0	3,698.5	7.0	8.2	4.25	5.17	1.97	1.38	.85	.97
Westinghouse Electric	1,910.7	1,955.7	4.4	4.0	2.22	2.22	.55	.59	.57	.51
West Virginia Pulp & Paper	233.1	250.2	5.0	4.4	2.21	2.07	.45	.68	.53	.44
Wheeling Steel	211.6	227.8	3.3	3.6	2.53	3.14	2.43	1.04	.07	d.40
Wilson & Co.	655.5	585.3	1.4	.3	3.88	.53	—	d.48[1]	—	1.01[1]
Youngstown Sheet & Tube	617.8	584.3	5.0	4.4	8.90	7.38	3.70	1.72	.77	1.19

d—Deficit.
N.A.—Not available.

1—6 months.

means that Westinghouse's industrial sales must have been higher. Billings increased slightly and the company enters 1961 with a fair backlog, but the cost squeeze is likely to increase in coming months. Thus, no early improvement in this picture is indicated. Also, as pointed out elsewhere in this issue, the recent price-fixing scandals will hurt the electrical equipment group.

Divergent Trends In Paper

In the paper industry sales were substantially higher last year, establishing new records in several cases, but at least two important companies, **St. Regis** and **West Virginia Pulp,** failed to transform this larger gross into improved net and suffered earnings declines, a sharp set-back to $1.91 from $2.98 a share a year ago in the case of St. Regis. Prices have been weak in nearly all fields, particularly in the lumber and plywood sidelines which some companies conduct. **Rayonier** failed even to participate in the other companies' sales growth, and was forced to enduce a decline in net to $1.63 a share from $2.35 a year ago.

Scott Paper, however, created a brilliant exception to the trend. With sales up 5% to a new record level, earnings climbed even more substantially to $3.40 a share from $3.08 a year ago. The household papers in which this company specializes were evidently more resistant to the price weakness. The company's new plastic drinking cups and sanitary napkins ("Confidets") are also believed to be doing well, although more specific information must be awaited in the annual report. Scott has recently entered the European market in partnership with Bowater.

American Motors Exhausts Its Tax Credit

American Motors' 1960 results are no longer hot news, as the company's fiscal year ended in September. Briefly, last year's sales were up an impressive 21% —but earnings per share simultaneously dropped to $2.68 from $3.37 in fiscal 1959. This discrepancy was less unpleasant than appears on the surface. Heavier expenses, arising partially out of continued expansion, were encountered, and the profit margin narrowed. Final net income would, however, have at least equalled the year earlier level if it had not been for the exhaustion of a heavy tax-loss carryover.

A more solid but less spectacular organization, **General Motors,** was able to report a 13% sales gain to $12.7 billion, a new record. Even more favorably, the profit margin was fully maintained and earnings lifted to $3.35 from $3.06 a share in 1959. G. M. was, of course, badly affected by the steel strike last year, and fourth quarter sales and earnings reflected a particularly sharp rebound. For the year as a whole unit sales were up 21% but, as everyone knows, their content included a larger number of smaller-profit compacts.

While these results were probably a little more favorable than expected, Chairman Frederick Donner expressed reservations about the outlook for the current year. Inventories are still high while car sales have been at less than a satisfactory level during the winter.

Oils Buck The Trend

The oil industry, formerly every investor's favorite but now more of a rejected sweetheart, will be watched particularly closely for signs of a comeback. In their preliminary statements most of the companies do not disclose 1960 sales but **Standard Oil (N.J.),** for one, reported a 3% advance to $8.9 billion — a small favor that should not be spurned. Almost unanimously the oil companies have announced considerable earnings improvement, with **Sinclair** leading the parade by its advance to $3.41 a share from $2.96 a year ago. Restoration of the former $3, dividend would naturally be a happy event for the owners of this company. Only **Shell,** with a drop of 4¢ a share, hardly worth mentioning, to $2.39, violated the general trend.

In releasing the figures for his own company, President Rathbone of Jersey Standard repeated the familiar complaint about severe competition and depressed prices, but found some solace in a 5% growth in international sales and better demand in this country for petrochemicals and natural gas. Cost-control policies are also beginning to show results, he indicated.

In an extremely exclusive category, **Phillips Petroleum** actually established a new earnings record, $3.27 a share, in the year just ended. Besides some success in reducing costs this was attributed largely to sales gain for chemicals, natural gas and Venezuelan crude oil. Capital expenditures were reduced in 1960 below 1959, and will be reduced further in 1961—a necessary process for correcting the overcapacity plaguing the industry.

Despite the mildly favorable results cited it would be unrealistic to expect this improvement to gather any great momentum in the year ahead. Still, signs indicate pretty clearly that the worst has been seen in this industry.

Only Two Early Reporters in Non-Ferrous Metals

Among non-ferrous metals not enough important companies have reported, as of this writing, to give a reliable guide to last year's operating results. If other copper companies duplicate **Kennecott's** performance, however, there will be little reason for complaint. This leading producer billed physical shipments 25% heavier in 1960 than the year before, and enjoyed a 14% gain in dollar sales. Net was lifted to $7 per share from $5.19 in 1959, so that the $5 dividend is now fairly well protected.

Foreign demand for copper remains very favorable although, curiously, the foreign price is below domestic quotations, where the market is less firm. The domestic price has, however, just been reduced to 29¢ from 30¢ a pound. Copper tends to be in world-wide oversupply, but the sudden closure of any important group of mines, as by political action, could revise this picture radically and justify premium prices on the part of the happy companies escaping the blow. In the absence of such unpredictable action the copper outlook is unexciting but stock prices are correspondingly moderate.

If **Kaiser's** experience proves typical, aluminum companies had less to cheer about last year. Sales of this producer dropped 8% to $406.5 million, although earnings were maintained practically unchanged at $1.20 a share. The improved profit margin was attributed by President Rhoades to specific internal controls established as far back as 1957 to obtain maximum operat- *(Please turn to page 576)*

Anti-Trust Suits Expose...

PRICE-FIXING SCANDALS

—The companies involved and the effect on the investor

By WARD GATES

RECENT scandals among the upper echelons of American industry have shocked the investment world and dismayed the most ardent friends of the free enterprise system. Past scandals that involved raiders and pirates who preyed on unsuspecting companies and stockholders could rightly be viewed as the unsavory acts of sharp dealers who exist in every era. But the woes at Chrysler Corporation followed by the indictment of 29 electrical equipment manufacturers and 46 of their upper-level employees has hit hard at some of our most respected companies.

Among the criminally-accused companies who have pleaded guilty to the charge of illegal conspiracy to fix prices and allocate markets are such giants as General Electric, Westinghouse, Allis-Chalmers, Square-D, and hosts of other well-known organizations. Thoughtful investors must be asking themselves why the employees of such well-established, respected companies were driven to perpetrate acts that contravene the most basic tenets of a free enterprise system; and what harmful results will come out of the trials and the airing of this unpleasant business.

We hold no excuse for the defendants, but perhaps some good will come out of this ill wind. Before investigating the possible effects upon the companies involved, a brief rundown of the facts is in order.

A Poetic Irony

Late last year federal anti-trusters struck a goldmine when several industry executives decided to accept immunity from criminal action in return for divulging information as to price-fixing practices that date back to 1951, for the record, and by implication as far back as fifty years. The immediate reason for the cooperative attitude of the informers was a rare jail term meted out to other corporate executives in a completely unrelated case. The fear of similar action opened the mouths of many conspirators.

What followed was a detailed picture of the involvement of nearly the entire electrical equipment industry in a massive conspiracy to fix prices on hundreds of products; to allocate business through false bids on large contracts; and even to dictate the kinds and prices of new products that members of the group developed.

The stories of intrigue, replete with secret telephone calls, false mailing addresses, clandestine meetings, involved codes and veiled threats, reads like a spy thriller—and, indeed, it is one. But the entire story also has a touch of poetic irony, which

may in the long run be its most important lesson. That is, despite all the machinations, all the intrigue and all the personal heartache on the part of many of the men who fought losing battles with their consciences, the system invariably failed. **In other words, private industry was no more successful in regulating economic forces than government has been in its numerous attempts.**

Of course, harm was done. Customers were hurt, and men will go to jail, but in most instances the record is filled with the vain attempts of the conspirators to plug the holes in their system caused by the intransigeance of its own members.

The Club Boys

Detailed study of the record brings out several contradictory but nevertheless important aspects of the case. Among the various conspirators, motives were diverse and mixed up. Some were hardened individuals out to succeed regardless of the consequences. But these appear to have been in the minority. Others, as close friends of most other men in corresponding branches of competitive companies, really felt they were just doing "good old Joe" a favor by seeing to it that his smaller outfit obtained enough business to keep itself in the black. After all, GE and Westinghouse had plenty of business and could afford to throw a few bones about.

Still another group, perhaps the most pathetic, were torn between their recognition of unethical conduct and the fear that, unless the smaller companies could survive, the larger ones might be attacked by the anti-trusters. Thus they were forced, in their own minds at least, to practice the lesser of two evils.

► **Whatever their motives, however, the harm has been widespread. For one thing, the conspiracy lends a hollow ring to the many legitimate complaints within American industry of the unfairness of foreign competition. The reason stems from the original cause of the whole mess. The T.V.A. suspected collusion on bids submitted to it by American companies. Surprised at the high prices, it asked for bids from foreign producers and justified its action by publishing the close bids from domestic companies. This put the anti-trust sleuths on the trail, and eventually led to the indictments—but the skepticism about the American complaints against foreign competition will take a lot of repairing, both at home and abroad.**

► **Secondly, an entire group of major American companies, and some of their top personnel, have advertised their disdain for the system of free enterprise, and have thereby given invaluable ammunition to the enemies of Capitalism. For the Communist world will certainly not be reluctant to exploit the incident for every ounce of propaganda they can squeeze out of it.**

► **And finally, the reputations of several major American companies have been severely damaged, while thousands of stockholders have been the innocent victims. The investment status of all the companies involved has been rendered suspect and the values of securities owned by their shareholders jeopardized accordingly.**

Company Attitudes

Most of the companies involved have attempted to minimize these consequences by claiming that the conspiracy was an unauthorized activity perpetrated by individual employees for their own ends. Several, including GE, have issued statements which quoted internal directives expressly forbidding such behavior. Nevertheless, it seems inconceivable that such a widespread intrigue could escape corporate attention. Judge Ganey, who heard the case, said, "I am not naive enough to believe that (the company) didn't know about it and that it didn't meet with their hearty approbation."

So far, disciplinary action has been relatively minor, as perhaps is proper until actual convictions have been handed down by the courts. But if the companies and their employees are found guilty, the penalties can be very severe. For the executives, it can mean dismissal with the possible loss of pension rights and all other benefits that have accrued to them. For some, it may even mean jail sentences and ruination of their personal lives.

Costs and Consequences

These are personal tragedies, but for investors the penalties that can be assessed against the companies may be even more disturbing, because of the complete innocence of the vast majority of stockholders. If convicted, each of the companies can be sued for triple damages by any customer who feels he has been injured—and he will collect. How many such suits will come no one can say, but already the California legislature has ordered the state's attorneys to prepare briefs against several of the defendants. **The companies are already negotiating with customers to stem the tide of legal actions, and many will be settled amicably with only minor financial liability. But it has been estimated that GE alone could, in the extreme, be liable for over $200,000,000 in damages. This is equal to half a years' net income after taxes for this huge company—or about $1.00 per share.**

Comparable claims are probably threatening many of the other companies in the industry. Although it is doubtful that anything so extreme as this will take place, the possibility cannot be discarded.

Moreover, the fear is now growing among some investors that a more aggressive Anti-trust Department will search even closer for other conspiracies, especially in defense contract bidding. Hence, the threat of further investigation and penalties may exist for a long time, and even if they fail to materialize, the damage to the investment status of the stocks could be considerable.

The Companies: Violators or Victims?

One of the saddest parts of the affair is that it has led to needless harm to major respected companies for potential benefits that were basically miniscule in their overall impact.

General Electric, for example, whether its top executives knew the score or not, is obviously the victim more than the cause of stupidity and cupidity of some of its employees. The company's total sales in 1960 came to about $4.2 billion, of which about 27 percent stemmed from the type of capital goods equipment involved in the anti-trust action. With over $1 billion in sales in this area of business, it is foolhardy to suppose that GE, with its enormous capacity and resources would not get its fair share of the business available from private industry. Thus, the employees who compromised GE probably did so, not so much for the company's overall benefit, as to show more stable results for

their particular divisions and to assure themselves bonuses and other incentive rewards. That they may have been hurting the company by their actions seems to have been beyond their concern.

Furthermore, GE was never really stymied by the conspirators, despite their involved efforts to dictate product and price policies. Over the years, GE has been a major innovator, giving to the American economy new and improved products for generating and transmitting electrical power. Hence, with its giant research facilities and its massive budget for product development, it would certainly have survived any truly competitive situation. But the officers responsible were apparently more responsive to their personal showings, and with the well-being of "buddies" throughout the industry, than to the welfare of their own company.

Whether or not top management knew of the conspiracy is beside the point. *They should have known,* in the interests of their stockholders, and in the interest of a company that has no need to stoop to conquer.

GE Plans a Greater Concentration in the Industrial Field

What about the future for GE? The stock's reputation has been damaged because investors viewed the company as one in which responsible management was at all times cognizant of its function as custodians for the owners of the business. Nevertheless, there are no signs to suggest that President Cordiner and his associates have abdicated their duties. A master plan has been mapped out to reduce GE's reliance on consumer products and to concentrate its efforts in fields where its technological wizardry can be put to best advantage. These fields include atomic power generation, jet and missile engines, computer and data processing engineering, industrial automation and space activities.

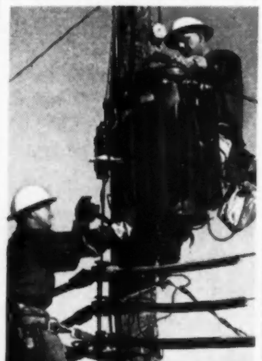
By concentrating on these fields, GE's labor costs can be more easily controlled, and major revenues will be separated from the highly erratic consumer durable goods market. Undoubtedly some cleaning up within the company will have to be conducted, and other bad pennies weeded out. But the long range program smacks of the same kind of success that has made GE a leader in industry all through this century.

The scandal is unfortunate and unforgivable. GE, however, will survive and prosper despite the malpractices of some of its employees.

Westinghouse More Vulnerable

Similarly more a victim than a perpetrator, Westinghouse, the second ranking producer in the industry, had no need to rely on conspiracy and illegalities to survive in the heavy equipment business. But if the company is relatively blameless in a moral sense, its position has still been damaged. Unlike GE, Westinghouse derives over 50% of its revenues from the fields affected by the action and hence is likely to suffer from the disorganization and confusion that will probably follow in the wake of the disclosures.

With all bidding now suspect, and with free and open price competition assured, Westinghouse has more to lose than GE. Over the next several years



	WESTINGHOUSE ELECTRIC CORP.	GENERAL ELECTRIC CO.	ALLIS-CHALMERS MFG. CO.	I-T-E CIRCUIT BREAKER CO	FEDERAL PACIFIC ELEC. CO.	OHIO BRASS CO.	LAPP INSULATOR CO., INC.	PORCELAIN INSULATOR CORP.	A. B. CHANCE CO	McGRAW-EDISON CO.	H. K. PORTER CO., INC.	HUBBARD & CO.
POWER SWITCHGEAR	G	G	G	G	G							
CIRCUIT BREAKERS	G	G	G	G	G							
LOW-VOLTAGE CIRCUIT BREAKERS	N	N		N								
INSULATORS		N		N		N	N	N	N	N	N	
LIGHTNING ARRESTERS	N	N				N				N	N	N
OPEN-FUSE CUTOUTS	N	N		N					N	N		N
BUSHINGS	N	N				N	N					
POWER SWITCHING EQUIP.	G	G		G	G						G	
MARINE SWITCHGEAR	N	N		N								
ISOLATED PHASE BUS	N	N		N							N	
POWER TRANSFORMERS	G	G	G							G		
DISTRIBUTION TRANSFORMERS	N	N	N							N		
NETWORK TRANSFORMERS	N	N	N							N		
INSTRUMENT TRANSFORMERS	N	N	N									
INDUS. CONTROL EQUIP.	G	G										
LOW-VOLTAGE DIST. EQUIP.	N	N		N	N							
CONDENSERS	G		G									
TURBINE- GENERATORS	G	G	G									
POWER CAPACITORS	N	N				N				N		
WATT-HOUR METERS	N	N										

the electric utility industry has budgeted record-breaking capital expenditures—a program that will mean a high level of business for all the companies in the field. But prices are going to be under greater pressure because of renewed competition, and profit margins are therefore likely to be smaller than in the past.

In the meantime, atomic energy, which Westinghouse has banked upon heavily, has yet to reach its full potential, while consumer durable goods markets threaten to be irregular at best. In consequence, Westinghouse is liable to suffer the dual problem of a downgrading of its investment status, and a more difficult struggle for profit growth.

If the company can avoid costly suits—and this appears probable at this moment—the long-range damage should not be great. In the interim, however, shareholders will have their uneasy moments.

For Allis Chalmers

This new woe adds to a host of others that have held back the company's profitability in recent years. Fortunately, its large place in the farm equipment business assures it a satisfactory level of operation in a field completely unrelated to the scandals. Thus, Allis-Chalmers is in no danger of disaster. The damage done to the stock's prestige, however, coupled with the limited profit growth potential that lies ahead, will also have an adverse investment effect.

The Smaller Companies

Less clear is the fate of the smaller companies involved in the conspiracy. We may leave it to the courts to decide their degree of guilt—whether they were victims or villains—but the fact remains that all of them will face a more sharply competitive market from now on. **If some have survived only because of favoritism from others, their days may now be numbered. Only time can tell how much hurt will result, but meanwhile a cautious attitude toward their stocks is necessary.**

Some companies, such as Cutler-Hammer, may find solutions in their successful diversification programs, but in any event the problems will be numerous in the period ahead.

How Defendants Pleaded In The Government's Price Collusion Cases Against Electrical Equipment Makers.

G— Guilty

N—Nolo Contendere

JOSLYN MFG. & SUPPLY CO.	SOUTHERN STATES EQUIPMENT CORP.	SCHWAGER-WOOD CORP.	MOLONEY ELECTRIC CO.	WAGNER ELECTRIC CORP.	KUHLMAN ELECTRIC CO.	ALLEN-BRADLEY CO.	CLARK CONTROLLER CO.	CUTLER-HAMMER, INC.	SQUARE D CO.	FOSTER WHEELER CORP.	CARRIER CORP.	INGERSOLL-RAND CO.	C. H. WHEELER MFG. CO.	WORTHINGTON CORP.	CORNELL-DUBILIER ELECTRIC CORP.	SANGAMO ELECTRIC CO.	L. G. L. THOMAS C. H. WHEELER MFG. CO.	W. C. ROWLAND WESTINGHOUSE
N																		
N	N																	
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			G	G														
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An Incentive for Anti-Trust Prosecution?

The Anti-trust Department has been noticeably unfair at times in its own definition of its duties. Recently, it has taken upon itself the right to interfere with mergers that mean diversification for many companies and in no way increase the monopoly position of the merging parties. The Department has rightly been criticized for this policy, but such bold abuses of public trust as was displayed in the electrical equipment price-fixing scandal strengthens the hands of the trust busters in all industries. Instead of being stayed by criticism, the Department may now push ahead with even greater vigor to smoke out scandal and increase its powers.

In the long run this may be the most important result of the scandal. For those who seek greater and greater power for Big Government will be encouraged by the pay-dirt they hit in the electrical industry.

For the industry itself, the greatest harm in the long run will stem from the confusion and

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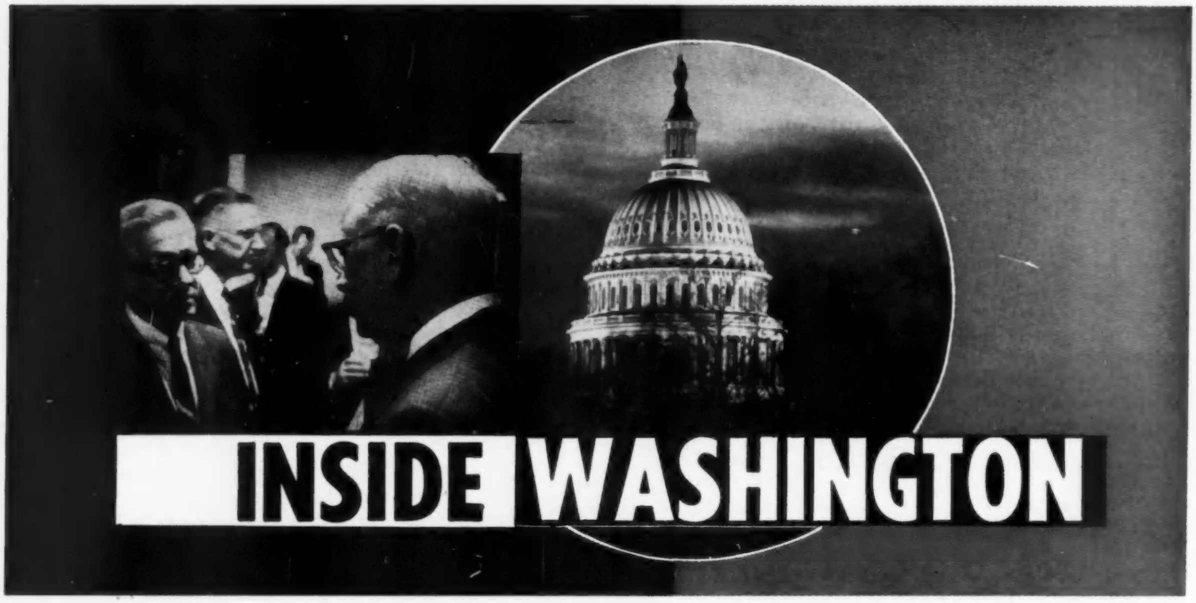


INSIDE WASHINGTON

BY "VERITAS"

SKEPTICISM, reserved and not directly quotable, greeted President Kennedy's first press conference statement that Khrushchev's release of two imprisoned RB-47 flyers presaged better U. S.-Russian relations. From the U. S. end, it would seem that Mr. K. had made a real "concession" to this country. On the other hand, experts in the area of Kremlin psychological processes regard the flyers' release as a gesture with hidden strings attached. Cynically, and in their own perhaps justifiable opinions, they regard the Kremlin gesture of generosity as "just another trick" in the never-ending cold war against the United States, to be followed by perhaps "impossible" Russian demands with respect to atomic weapon controls, arms inspection and last, but by no means least, an early Summit Conference on the Free Berlin issue. Seasoned Russian experts and ranking members of the Diplomatic Corps feel that the President's statement was "over-optimistic." Their views are shared by ranking Capitol Hill Members of the Foreign Relations Committee.

WASHINGTON SEES:

Vice President Lyndon B. Johnson will be President Kennedy's mainstay on Capitol Hill. On the Texan will fall the major responsibility for legislatively effecting the New Frontiers program. Nominally, Senator Mike Mansfield of Montana is Senate Democratic Floor Leader, but the President has made it plain to his Vice President that, in addition to his duties as presiding officer of the Senate, he will have to continue — back-stage, of course — as the "de facto" Democratic boss of the Upper Chamber and, to some extent, a controlling factor in legislation pending before the House. Johnson may acquiesce in this, but regretfully, because of his long-standing friendship with House chieftain and fellow-Texan Sam Rayburn.

Just how it will work out is anyone's guess at the moment, but Capitol Hill leaders of both Parties point out there is much in the Kennedy program not meeting Johnson approval. Nor, they continue, does Speaker Rayburn of the House privately give his blessing to much of the Democratic platform. Thus far, the Speaker has rendered "lip service" to his President and Party, and will continue such service. At heart a conservative — as is the Vice President — there would be no difficulty in continuing public support of the Kennedy program, at the same time working back-stage against those too-liberal measures not meeting his approval.

BUDGET, Kennedy's, that is, becomes involved in the tax issue. Can the public absorb new taxes, or would it be better to *reduce* Federal levies in hope that such cuts would produce an upturn in the national economy with resultant revenue increases? In the Administration's memory is the fact that 1955 reduction of some Korean War taxes—although temporarily trimming Federal revenue—produced sharp rise in receipts in 1956 and 1957. Problem confronting the Administration and the Congress; did the 1955 tax cuts generate economic growth that swelled Internal Revenue's take? An affirmative answer is available from many reliable economic and Congressional sources. Meanwhile, House Ways and Means Committee plows ahead with the Herculean task of revising and simplifying the Internal Revenue Code, a 1200-page document that has been subjected to a crazy-quilt series of over 450 amendments in the past four years.

COMMERCE Department, now under the direction of its new Secretary, North Carolina's former Governor Luther Hodges, the "business man's governor," has already achieved a remarkable transition "from the old to the new." There has been no "friction," while reporters regularly assigned to the Department are unanimous in the opinion that "Commerce will be smoothest working, most efficient Department seen here in a matter of 15 or 20 years." This opinion is also shared by business, reporters covering other government departments—even by the reluctant forces of organized labor.

As We Go To Press

Tiros To Replace The High-Altitude U-2 Reconnaisance Flights? Fond hopes of those charged with developing intelligence on Russian moves are pinned on the Nation's newest space traveler. Tiros II, the country's second experimental weather satellite, has been taking "remarkable" direct pictures of cloud and other weather formations in the Northern and Southern Hemispheres. It is the considered opinion of experts in this field that TIROS can well supplant the U-2 flights, now permanently suspended by President Kennedy. Of especial interest to the men of military intelligence is fact that pictures taken by TIROS compare favorably with "other observational data taken by conventional means." In short, a Red enemy might bring down a U-2 plane but he couldn't hit a TIROS satellite.

Food For Peace Faced With Snags. Administration would like to "pour" surplus grains into Iron (and Bamboo) Curtain nations, but specter of military hardware is in the way. Briefly, the Administration would like to ship (without charge, of course) millions of tons of our surplus farm produce to Red China, now facing famine because of crop failures, and China would be agreeable to acceptance but, and the "but" is a big one — such shipments would leave the Mao Tse Chung-Chou En Lai outfit — now using scarce foreign exchange to buy grains from both Canada and Australia — with more cash to buy arms, even scarce atomic materials, for eventual use against the United States. Top-level White House study is under way, but the solution seems far from achievement.

Missiles And Rockets An Early Problem for President Kennedy. Most pressing is a decision on the Nike-Zeus system of high altitude detection of enemy missiles; identification, and tracking multiple targets, and intercepting and detonating atomic weapons at altitudes without harm to the terrain below. Three basic questions are involved: Strategic — the fundamental question of striking power versus deterrent power, and which is to be of the most importance in the immediate future. Technical — Army is firm in its declaration that Nike-Zeus is about "ready to go now," but will be absolutely ready after a few months more of research and development. Economic — cost estimates vary from $8 billion up to $15 billion. Bucking Army's confidence are numbers of non-Army experts in the missile-space fields.

Military Petroleum Purchases, Both Here And Abroad, To Decline Slightly. Planned procurement for the approaching fiscal year 1962 is now set at 744,000 barrels per day, 459,000 barrels of which will be from the United States, the remainder from overseas. The oil industry is not pessimistic, believing the "experts" in the Department of Interior are a little off in their calculations. Increasing demand for jet fuels are certain to boost the estimated fiscal 1962 purchases by as much as 70,000 barrels per day. This is an industry opinion which has support from Defense Dept.

Congress Now Swinging Into Action. Practically idle from Jan. 3 through the last day of the month, Capitol Hill denizens are even now talking of adjournment prior to the Statutory July 31 "sine die" adjournment time. Roadblock to real action was the House battle to "pack" the Rules Committee for rapid clearance of New Frontiers legislation for floor action. This issue resolved, organization of other Committees has gone forward with celerity. The Rules "packing" vote was a signal victory for the Administration, but there remain enough conservatives of both Parties to effectively brake any extravagant legislation.

Newsmen, And Capitol Hill, Object To Planned White House Control of News. Within a week after entering the White House, President Kennedy is apparently ignoring the Democratic Platform criticism of the "massive wall of secrecy erected between the Executive Branch and the Congress, as well as the citizen," and also as his own November declaration that he wished to be a President "who has the confidence of

the people — and who takes the people into his confidence." All of this seems to have gone completely "into the ash can." Apparently, White House News Secretary Salinger will be a sort of press czar who will "coordinate information between his own office and the various government departments and agencies." In short, tight White House control of all Federal information, releasing only that favorable to the Administration. Even Capitol Hill leaders (after Tuesday visits to the White House) have "no comment" for waiting reporters. More of an explosive nature is due from the Solons, as well as newspaper editors.

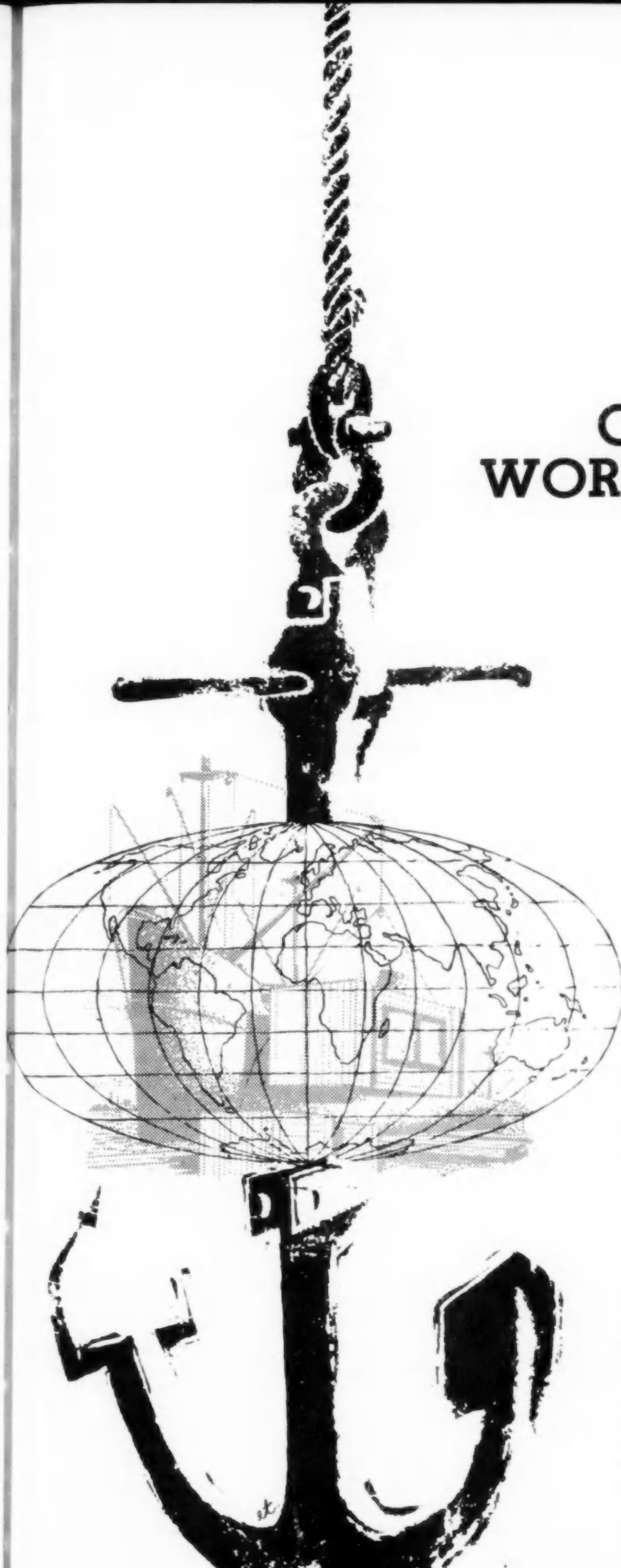
State Of The Union Message, Couched in Broad Generalities, Brings One Big Question Here. What would its implementation cost? Even the President doesn't have an answer. Budget Bureau staffers are carefully conning the 1961 and 1962 budgets in search of "lard" that might be trimmed out, especially Federal contributions and payments to local governments for programs which could have been eliminated or drastically reduced had Congress the courage to continually survey these programs, many of which have outlived their original intent and purpose, but have been continued for the reason that legislators are averse to cutting off "free money" flowing from the National Treasury to home bailiwicks. It is believed, however, that President Kennedy will insist that State governments and private enterprise share heavily in the cost of large hydro-electric and irrigation developments.

Hi-Jacked Portuguese Liner Jolts State Department. Audacity of the rebels in seizing vessel was shocking to all the world, but immediately ensuing Latin-American moral support of the rebels gave a disturbing insight to relations with our neighbors to the South. First White House reaction was to pursue the captured vessel and take her with force of arms, treating the rebellious Galvao and his entire crew as common pirates. This, however, was quickly changed when diplomatic grapevines revealed that the larger, more important heads of state to the South were in sympathy with the "pirates." That is why, instead of moving against Galvao and his men as common pirates, we sent an Admiral to the ship's rebel leader to negotiate for safety of U. S. citizens aboard. These safely landed, there will be no further official comment from Washington, no condemnation of those responsible for an act of barratry which in other years would have called for prompt execution "at the yard arm," of those responsible. One reliable State Department source describes Latin sympathies as "shocking to the best interests of this country."

Look For Softening Of Previous Administration's Order Returning Overseas Military Personnel Families To Conserve Gold Reserves. The order has caused serious problems overseas. Officer resignations and non-reenlistments by skilled technicians of first three enlisted grades definitely peril maintenance of our far-flung military bases — air, naval and army. It was one of the first problems tackled by the new President who, because of his own far-away naval service, is sympathetic to the servicemen's objections.

Goldwater To Unlimber His Heavy Guns. Against the 15-million AFL-CIO leaders, that is. The conservative Arizona Senator is not revealing details of his barrage at this time, but it can be definitely asserted that in the past three years he has assembled data and arguments that will amount to "concentrated dynamite." Look for something "sensational" when the so-called "Common Situs Picketing Bill" is again before the upper chamber. Designed to legalize secondary boycotts at construction sites — even defense and atomic installations — it was sponsored by President Kennedy as he served his last term in the Senate. The much-attacked House Rules Committee prevented House debate and action when union forces objected to a provision that would bar picketing of vital defense installations.

Airport Executives Want $1.2 Billion of Federal-State Aid Over Next Four Years. This is the amount they say will be necessary to build needed airports, plus expansion and improvements necessary to enable existing airports to meet modern air transportation's rapid growth. In a new survey, to be published momentarily, the executives will reveal that of the 3,564 public airports in the U. S., 1,441 have planned projects which will cost $1.2 billion, with the tab about equally divided between Federal Treasury and the 50 States.



OUTLOOK FOR WORLD TRADE IN 1961

By JAMES A. LOUGHRAN

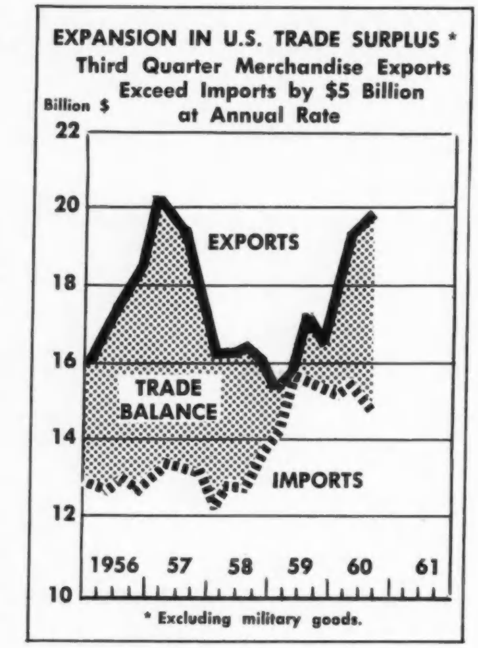
- **Politics and economics in U.S. import-export trade picture**
- **The reasons why dollar devaluation or gold embargo is a hazardous guess for the intermediate future — where wage differentials and other factors have been misleading**
- **Generally broadened market for American goods indicated — where demand for American products will improve — where it will decline — new steps taken to stimulate markets abroad**
- **The import specialties we will continue to absorb — shifts in the making.**

IN a world of accelerating international activity what prospects does 1961 hold for the American businessman? What profit is to be reaped by his adjusting to the recent trend of worldwide political and economic developments recently in the headlines? These questions have not been answered realistically, let alone considered at all, by a good number of U. S. businessmen. For, of late, the subject of world trade has become a bogey, almost a dirty word. Emotional and irrational thinking, triggered in part by Castro's banditry to the South, has contributed to a revival of anti-foreign sentiment. In a nation with only 6% of its trade in foreign goods, the average American businessman is naturally unaware of the opportunities for profit in foreign trade. **Moreover, the recent clamor over the U. S. pricing itself out of world market has tended to becloud one basic fact of our American affluence. This is that every successful American business enterprise is keenly competitive — and this competitiveness extends to all markets on this globe.**

Despite the recent gold flurry and dollar scare, events on the international scene, if analyzed incisively, point up tremendous opportunities abroad and indicate that by orienting his policy and organization globally in 1961 the American businessman can realize new and powerful springboards to greater profits.

In this article we shall focus on the opportunities and trends that lie ahead in exports and imports for the businessman in a nation that finds itself

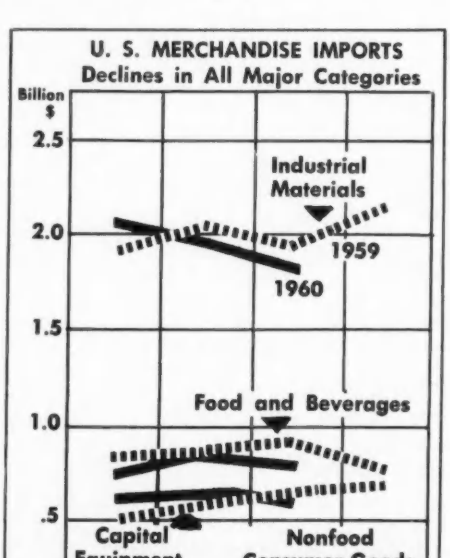
anomalously at the end of '60 with a bulging surplus in its merchandise trade balance and an equally bulging deficit in its balance of total foreign transactions.



An Unaccustomed Role for Uncle Sam

A chilling atmosphere of crises regarding the dollar drain and the U. S. balance of payments overtook Americans in the final months of 1960. The speculative flare-up in free gold markets dramatically captured the attention of financial experts and laymen alike. Public interest was heightened when it was learned that American G.I.'s overseas would have to ship their wives and children back home and be deprived of the solace of their company and that the Overseas' P-X's would have to "Buy American". Anti-foreign sentiments were exacerbated with the weird news that the "poor" United States had just gone through the embarrassing process of asking "rich" West Germany for $600 million a year and had been turned down in no uncertain terms.

The drama of this is the more fantastic when one realizes that this deficit in the balance of payments and loss of gold was accompanied by a dazzling show of strength on the part of our country's shipments abroad. The reason for this anomaly is simple. International financiers and speculators are now discovering an important fact quite new to the postwar period, viz., the hardness of the main European currencies which makes it safe again to invest in them. Aided by the differences in economic conditions and interest rates between the United States and Europe, this monetary strength led mass movements of capital out of the United States and into Europe. The really changed condition in the world, then, is not any panicky flight from the dollar but the discovery of how extensive capital movements can be when economic conditions are more nearly equal in Europe and U. S.



What Steps Are Politically-Economically Acceptable?

►Nevertheless, last year's deficit of 4 billion dollars and the consequent drain on our gold reserves creates a problem that demands a correction. ● Devaluation is very unlikely mainly because of political pressures. ● A new Administration would hardly make its debut by devaluing the dollar. ● Also a lighter dollar would no doubt be compared unfavorably with the recently heavier-made Russian ruble. ● The United States is also unlikely to adopt the solution of a high interest rate, inasmuch as we are right now in a business recession. ● Nor are we likely to cut back significantly in our foreign economic or military aid with the threat of Communist economic penetration in the underdeveloped countries becoming greater. ● Additionally, the chances of gold embargo by the U. S. are nil. For such a step would force a devaluation of other currencies with drastic effects on international trade.

Foreign Self-Interest

Hence with the foregoing measures unlikely to be pursued, what is needed to reduce the dollar deficit? ● Since foreign governments and central bankers have a common interest with the United States in throttling a devaluation of the dollar, we should prevail upon them to state publicly that they are committed to its support. ● Complementing this, we should push our own export expansion program on the one hand and on the other induce the European nations first to eliminate quantitative restrictions and reduce tariffs on imports from us.

Thus, the requirements of a general foreign policy for the new Administration would seem to make an expansion of United States exports an essential ingredient. On his own part, every American businessman should take a long, hard look at strengthening his organization's export program.

Encouraging Export Picture for 1961

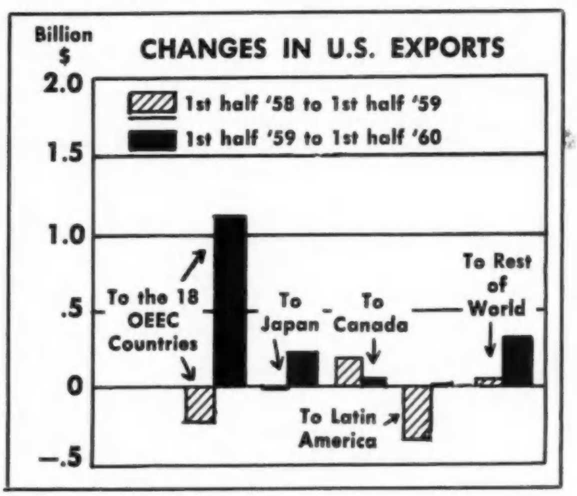
The United States will continue to be a good exporter in 1961. A large number of trade experts and economists predict that the demand for American goods abroad which soared briskly in 1960 should hold at least through the first half of '61 and may even become greater. In fact, a recent interview of leading companies in the export field shows a preponderant number expecting a rise of 5% over the 1960 level. Some do discount any increase, but the consensus is that the close of

'61 should find the total of merchandise exports hovering about the 19.5 billion dollar mark — as compared with 19.2 billion for 1960.

Despite the ever-increasing chatter that American goods have been priced out of world markets, the record indicates that United States exports have been strong in the past and in all likelihood are even stronger today. The gloomy contention regarding the competitiveness of our goods probably stems from the fact that United States overseas shipments in 1958 and 1959 sank well below the zenith reached by exports in 1957. While this decline did occur, it was not indicative of the long-term picture. For, **in 1957 United States exports climbed to new heights mainly because of the Suez crisis and the consequent disruption of settled patterns of trade. Further, 1958 witnessed a recession in the United States followed by a major readjustment in Japan and Western Europe. Hence, these years were hardly a fair basis of comparison.**

But Narrow Basis of Trade Raises Doubts

When one analyzes last year's exports, two facts stand out in sharp relief. First, Western Europe and Japan accounted for over 75 per cent of that year's gain in the trade surplus. This improvement, which coincided with an unprecedented Western European and Japanese boom, reversed a pattern that had characterized United States trade with these two areas for the preceding two years. Such movement of our exports toward the more advanced and growing industrialized nations should ordinarily afford a stronger prop for future export performance. The trade base was, however, very narrow; almost 50 per cent of last year's expansion came from five products: steel, cotton, aircraft, copper and aluminum — and Western Europe accounted for almost half of these shipments. Hence a decisive question becomes whether the strength of these commodities will continue; and if not, can our basic export position remain strong without them?



► Backlogs of unfilled orders do suggest that shipments of **jet aircraft** to European airlines should hold up well until mid-year. As for **cotton,** the demand should continue for the rest of the crop year but then will taper off.

Europe's rising capacity to produce aluminum and steel will reduce its reliance on the United States as a supplier of these products in 1961, while the demand for copper imports from the United States will be influenced greatly by the political unrest in the traditional copper supply sources—Latin America and Africa. Thus, the current outlook for a continuance of high level export activity by the heretofore most important commodities is not optimistic.

Broadened Market for American Products Indicated

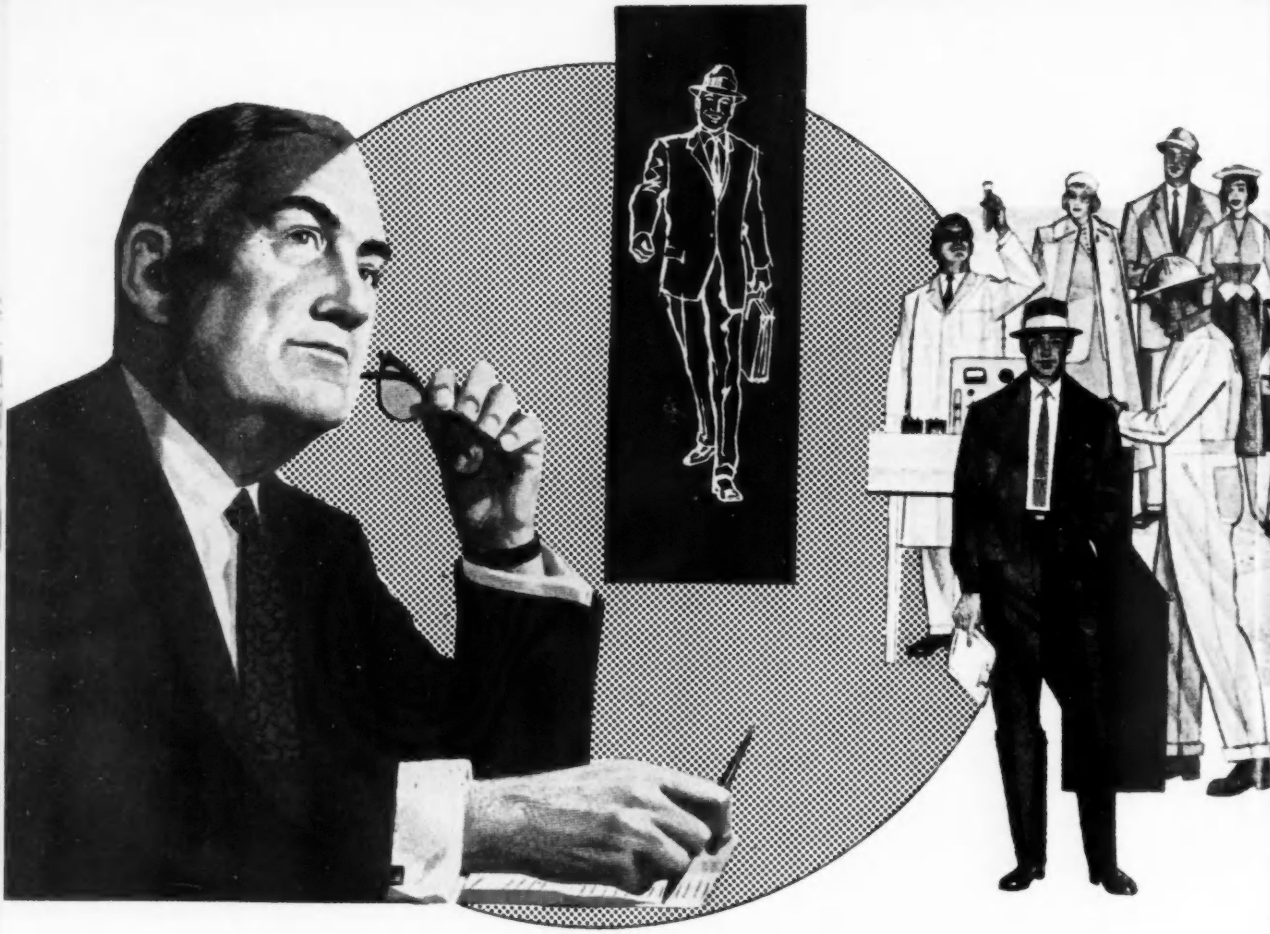
► Even so, this should not dim general export prospects, since the shift of the bulk of our exports to the industrial nations demonstrates a more solid base for expansion. Whether or not the growth in these nations' own productive facilities will dampen our export prospects for the future depends on the future market for growth items in Europe and Japan, and upon the ability of our products to meet the competition through technological advances. At any rate, as wage rates in these countries continue to advance, we can at least expect that capital will increasingly be substituted for labor, creating a greater market for U. S. industrial machinery and other capital goods.

► High labor costs also mean high incomes and high incomes mean not only broader markets but also demands for both product innovation and higher-value goods. Both types of products are made in this country usually before they are made elsewhere in the world. Production of such high-value goods in vast volumes provides considerable opportunity for the export of numerous specialty items overseas. Particularly if import tariffs and quantitative restrictions are further relaxed abroad, our allies will often find it economically more feasible to import these goods rather than make a heavy initial capital outlay and manufacture them themselves at prohibitively high costs. **Specifically, this should mean new markets for industrial control equipment, computers, transfer machine tools and chemical process equipment.**

More Active Promotion Going On

There are some long term factors which promise to provide added momentum to future export sales. The government's National Expansion Program ("NEEP") which is presently rolling full speed ahead is one case in point. Here, for example, the Export-Import bank has already issued over 80 short-term and over 50 medium-term credit insurance contracts against political risks, for a total of $65 million. And in the relatively brief period of six months, "Operation Hard Sell" under the auspices of the Department of Commerce has chalked up some outstanding results.

► As evidence of this, we now see Trade Survey teams studying market potentials in Africa, Central America, and the Middle and Far East. And in some of these areas a United States Commercial Office is being opened to provide trade leads and contacts with foreign business executives. Some foreign service posts are distributing newsletters about American goods and new products to local business communities, while U. S. companies are being requested to supply these posts with displays, catalogs, and literature. Trade mis- *(Please turn to page 577)*



Favorable Investment Outlook for INSURANCE COMPANIES in 1961

By PAUL J. MAYNARD

- **Appraising position and outlook of the fire — casualty — and life companies**
- **Where problems have been solved — those that still remain — favorable trend toward mergers**
- **Position of the individual companies — where higher earnings and dividend increases are likely**

LAST year both the fire and casualty insurance company stocks and the life insurance company shares outperformed the industrial stock averages. This was not too difficult since the industrial averages at the end of 1960 were generally lower than they had been at the start of the year. To date in 1961, insurance stocks are continuing to rise, with the life insurance group doing particularly well. The market gains of the life insurance company stocks were not as large in 1960 as the fire and casualty insurance company stocks, but it now seems likely that 1961 will be better for the life stocks.

In order to gain perspective and to understand the current trends in insurance company stock prices, it is necessary to review briefly their history over the past five or six years. Both the fire and casualty stocks and the life insurance company stocks reached new highs in June 1955 after an extended rise. For varying reasons both groups turned in mediocre market performances over the ensuing three or four years.

► In the case of the ***fire and casualty insurance companies***, rapidly deteriorating underwriting results caused by inadequate rates, under-insurance to value, in an inflationary economy and uneconomically high expense ratios were the chief causal factors contributing to the mounting losses from underwriting.

► In the case of the ***life insurance companies*** the spectacular price rises in the early 1950's made the group vulnerable to a downward market re-

Statistical Comparison — Fire and Casualty Insurance Company Stocks

	Net Invest. Income Year 1959	Net Invest. Income Est. Year 1960	1959 Net Oper. Earnings	Dividend Rate	Recent Price	1960 % Price Increase	Yield	Estimated Liquid. Value 12/31/59	Price Times Est. 1960 Net Invest. Income	Combined Loss & Expense Ratio First 9 Months 1960	Combined Loss & Expense Ratio First 9 Months 1959
Aetna Insurance	$7.27	$8.05	$4.69	$3.00[2]	91¼	20.1	3.29	$119.85	11.3	100.0%	102.8%
American Insurance	2.03	2.15	2.14	1.30	27⅝	1.4	4.71	32.23	12.8	100.4	100.9
Boston Insurance	2.79	3.05	0.11	1.80	33½	—7.0	5.37	55.18	11.0	104.7	105.1
Continental Casualty	2.46	2.80	4.04	1.50[2]	95½	21.2	1.57	42.89	34.1	98.6	97.0
Continental Insurance	3.40	3.60	1.80	2.20	56½	3.4	3.89	81.46	15.7	104.5	104.3
Federal Insurance *	1.63	1.80	2.25	1.00	60¾	7.2	1.65	38.60	33.8	93.0	91.3
Fireman's Fund	3.98	4.30	5.03	2.00	55	5.8	3.64	69.07	12.8	99.4	98.8
Glens Falls	2.96	3.30	1.99	1.00	37¾	15.8	2.65	59.14	11.4	102.0	101.6
Great American	4.05	4.20	3.85	2.00	50¼	14.3	3.98	81.58	12.0	99.9	101.5
Hanover Insurance	4.61	5.00	1.19	2.00	45¾	3.6	4.37	71.41	9.2	103.6	105.9
Hartford Fire	2.36	2.50	2.86	1.10	59¼	14.1	1.86	44.63	23.7	99.1	99.0
Home Insurance	3.92	4.20	4.70	2.20	63⅛	18.1	3.49	92.33	15.0	100.2	99.4
Insurance Co. of N.A.	2.70	2.90	3.06	1.80	85	17.7	2.12	58.84	29.3	96.9	99.1
Maryland Casualty	2.95	3.10	2.16	1.50	37⅝	1.4	3.99	46.03	12.1	98.8	101.2
National Union	4.19	3.80	1.78	2.00	43⅞	10.1	4.56	56.13	11.5	103.5	103.1
New Hampshire	4.48	4.75	4.51	2.20	52¼	1.9	4.21	87.99	11.0	101.8	98.7
Northern Insurance	2.68	3.00	2.75	1.50	43	—0.6	3.49	67.07	14.3	104.4	99.9
Phoenix Insurance	6.61	6.75	2.28	3.00	84½	0.3	3.55	158.38	12.5	104.0	104.2
Reliance Insurance [1]	4.27	4.52	4.85	2.20	57	23.9	3.86	82.17	12.6	100.1	101.2
St. Paul Fire & Marine	2.35	2.50	3.45	1.44	64¼	14.8	2.24	47.81	25.7	99.6	97.5
Springfield Insurance	1.61	1.80	1.78	1.00	35¾	10.2	2.80	45.56	19.9	103.1	102.3
Standard Accident	5.89	6.40	3.32	2.00	53¾	—18.1	3.79	81.02	8.2	104.2	100.1
U. S. Fidelity & Guaranty	2.69	2.65	4.71	1.00	45	19.4	2.22	49.33	17.0	97.9	97.9

*—Per share figures adjusted for 10% stock dividend in Nov. 1960.
**—Adjusted for any stock dividends and/or splits.
1—Per share figures adjusted for 5% stock dividend in Dec. 1960.
2—Including extras.

adjustment.

Perhaps of even greater importance was the agitation for a new Federal income tax law applicable to life insurance companies. Such a law was finally enacted in 1959 after a long period of study and hearings by Congressional tax committees. While the law, as it was finally passed, increased the tax burden of the life insurance companies, the provisions of the law have come to be regarded generally as fair and not punitive or destructive.

However, these were two effects of the new tax law which were temporarily bearish in their effect on life insurance company stocks. These were the tax incentives given to setting up increased policy reserves (which resulted in lower levels of reported earnings) and the uncertainties raised in the minds of investors by the complex nature of the law.

By 1960 most of the reserve adjustments had been made, paving the way for improvement in reported earnings. But it has required the passage of time to clear away the cloud of uncertainty created by the enactment of the law and to restore the confidence of investors.

Step-by-Step Solution of Problems

While the major problems facing the insurance industry have by no means been completely solved, there are indications that progress is being made toward solutions and that the general climate in which these companies are operating is more favorable than it has been for some time.

The fire and casualty insurance companies have been making progress slowly but surely in getting their rate structures into line with current experience. Upward revisions of rates in both fire lines (through reductions in discounts) and in automobile lines (through higher rates on a selective basis) were started in 1957 but are only now being fully reflected in earnings. These adjustments, coupled with the slow-down in inflationary pressures, as the nations' economy has moved into the current mild recession, have helped the fire and casualty insurance companies improve their underwriting performance. An additional important factor has been the effective attack which most of the fire and casualty insurance companies have made on the all-important expense ratio. In 1959 the improvement in the expense ratio amounted to more than a percentage point compared with 1958. While final figures for 1960 are not yet available, there are indications from interim data that another percentage point or more was lopped off the expense ratio last year. This declining trend in the ratio of expenses to premiums written is being made possible by reductions in commissions, particularly in automobile liability lines, and by stricter control over home office and field expenses generally.

The 1960 Setback

The 1960 underwriting experience of the fire and casualty insurance companies would have been substantially better than it was, had it not been for "Hurricane Donna" the severe tropical storm which caused damage to the extent of about $100 million in September of last year. This catastrophe cut a percentage point or more from the industry's average underwriting profit margins and made what might have been a year of excellent underwriting

Data on Leading Life Insurance Company Stocks

	1959 Adjusted Earnings [1]	Present Dividend Rate	1960 Price Data * Dec. 31	% Increase in 1960	Recent Price	Yield	Div. as % of Adjusted Earnings	Price Times Adjusted Earnings	Estimated Total Equity Value at 12/31/59[2]	Price as % of Equity Value	Increase in Life Insurance in Force 1949-59
Aetna Life	6.04	$1.40	98¼	14.2	96	1.46%	23.2%	15.9	$82.33	117%	180%
Commonwealth Life	1.75	.20	22½	—1.1	24⅜	0.82	11.4	13.9	13.46	181	187
Connecticut General Life	21.35	2.40	403	13.2	444	0.54	11.2	20.8	222.81	199	231
Continental Assurance	6.35	1.20	191	17.2	203	0.59	18.9	32.0	68.79	295	405
Franklin Life	3.69	.50	78	—4.0	84¼	0.59	13.6	22.8	26.29	320	363
Gulf Life	1.76	.50	20½	—5.2	20⅝	2.42	28.4	11.7	16.61	124	141
Jefferson Standard Life	3.09	1.00	44	—9.7	44½	2.25	32.4	14.4	36.42	122	156
Kansas City Life	125.03	10.00	1370	—5.5	1400	0.71	8.0	11.2	1,526.75	92	72
Liberty National Life	2.46	.30	62½	—4.6	65¼	0.46	12.2	26.5	16.79	389	201
Life Insurance Co. of Va.	4.79	1.20	58	20.2	65	1.85	25.1	13.6	67.10	97	104
Lincoln National Life	16.62	2.00	233	—6.4	233	0.86	12.0	14.0	186.84	125	182
Monumental Life	5.55	1.20	58	—1.7	63	1.90	21.6	11.4	60.21	105	74
National Life & Accident	6.83	.60	117½	—0.2	131	0.46	8.8	19.2	70.99	185	143
Travelers Insurance	6.29	1.40	93¾	8.4	100¾	1.39	22.3	16.0	83.69	120	164
United States Life	2.30	.15	43¼	—2.3	54	0.28	6.5	23.5	18.45	293	429
Average of 15 Companies						1.08%	16.6%	17.8		184%	203%

*—Adjusted for any stock dividends and/or splits.

1—Includes equity in increase in life insurance in force valued at $15 per thousand for ordinary, $5 per thousand for group, and 50% or annual premiums for industial.

2—Includes equity in life insuance in force at same valuations as in 1.

results only a moderately good one. For some of the lower profit margin companies, losses from "Donna" wiped out underwriting profits built up during the first eight months of the year. However, in the last quarter many companies were able to move back into the profit column on their underwriting. In the insurance business, with its many erratic shifts in underwriting results, it is necessary to concentrate attention chiefly on trends rather than exceptional developments. The main factor at work in 1960 was the over-all favorable phase of the underwriting cycle. Donna was a catastrophe which interrupted rather than reversed the cycle.

Back of Insurance Stock Prices

The short range price movements of fire and casualty insurance company stocks appear to be geared rather closely to their underwriting performance. However, traditionally fire and casualty insurance companies pay dividends to stockholders only out of net investment income. This part of the fire and casualty companies' earnings has been rising steadily even through the period of unfavorable underwriting results. Gains in net investment income during recent years have been averaging between 7% and 10%. These gains, coupled with improved underwriting experience have made possible a substantial number of increases in dividends by fire and casualty insurance companies during the past two years. Notable among those raising their rates or declaring stock dividends during the last year are the following:

Aetna Insurance Co.	40¢ year-end extra
Continental Casualty	25% stock dividend
Continental Insurance	regular to $2.00 from $1.80
Federal Insurance	10% stock dividend
Fireman's Fund	regular to $2.00 from $1.80
Great American	regular to $2.00 from $1.60
Insurance Co. of N.A.	100% stock div. and increase in cash rate
National Union Insurance	regular to $2.20 from $2.00
New Hampshire Insurance	regular to $2.20 from $2.10
Reliance Insurance	5% stock dividend
St. Paul Fire & Marine	regular to $1.44 from $1.30

Assuming no significant deterioration in underwriting performance in 1961, it is reasonable to expect that several more fire and casualty insurance companies will be added to the list of increased dividend payers this year. Among the more promising candidates might be American Insurance of Newark, Glens Falls Insurance Company, Hanover Insurance, Home Insurance, Maryland Casualty, Northern Insurance and United States Fidelity & Guaranty Company.

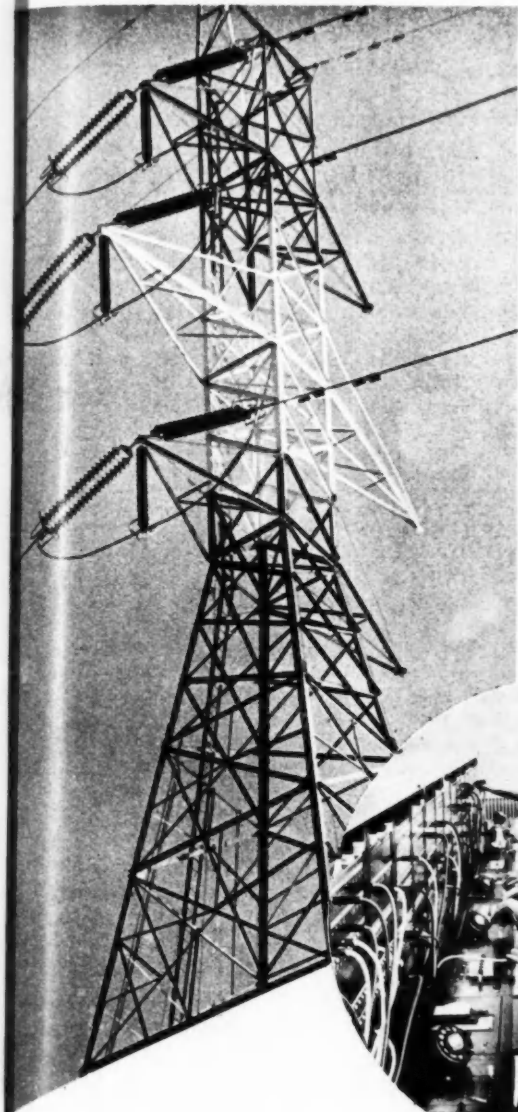
Trend Toward Mergers

The merger movement, always an important factor in the field of fire and casualty insurance companies, waxed hotter than usual during the past year. Federal Insurance, Glens Falls Insurance, New Hampshire Insurance and Springfield Insurance all acquired or made moves to acquire other smaller insurance companies to strengthen their operations and coverage. ● Hanover Insurance and Massachusetts Bonding & Insurance took steps to prepare the way for a marriage next June. ● The engagement between Fireman's Fund of San Francisco and Standard Accident Insurance Company of Detroit was rather abruptly called off only to be followed by the announcement of a proposed marriage of Standard Accident with Reliance Insurance Company of Philadelphia. Security Insurance Co. of New Haven has acquired control of New Amsterdam Casualty.

The "Life" Companies' Merger Prospects

Undoubtedly there will be more combinations of companies in the fire and casualty insurance field over the next few years. Competitive pressures are making it necessary for the smaller, less fully diversified companies to join with larger companies to improve their ability to compete. The conclusion that there are too many small insurance companies and not sufficient management staff to man them all, is becoming more widely accepted. While it is not possible to state exactly where the merger lightning will strike next, it seems safe to say that it will strike again, before the end of 1961.

► Continually men- *(Please turn to page 579)*



Giant and its "Little" Brother

★ AMERICAN T & T IN ORBIT...

—Enters new phase of growth

★ BELL TEL of CANADA...

Infant A T & T . . . A company to watch!

By ROBERT R. STURDEVANT

- **A T & T's transition to a growth stock through its wide expansion in its own field—activities in important new areas—and outer space too**
- **Bell Tel of Canada seeks to follow a similar pattern of enterprise — stability and growth**

THE Bell System is our biggest private enterprise, with revenues approaching $8 billion per annum and a gross plant account of $24 billion. There are some 223,000,000 shares outstanding, with a market value of around $22 billion, held by nearly 2 million shareholders with an average investment of some $11,000 each (many small holdings being offset by huge institutional holdings). Bell was recently able to report larger net income than its closest rival, General Motors.

A. T. & T. has always maintained the highest corporate standards in accounting and finance, giving it a unique status in the American business world. Its policy has been to preserve in good times a capital structure of one-third debt and two-thirds common stock, although in adverse periods, such as war time, the equity ratio may be permitted to decline. The low debt ratio is regarded by the management as a necessary protection against depression difficulties, the telephone business being more cyclical than either the electric or gas industries.

A. T. & T. has paid dividends since 1881, the rate being raised from $7.50 to $8.00 in 1906, to $8.50 in 1921 and again to $9.00 in 1922—which rate was maintained through thick and thin until July 1959, when the three-way split and increase in the dividend was announced. In the coming July, two years later, the company expects again to raise the rate on the present stock (now $3.30) to $3.60. Based on the recent price around 115, this would reflect a yield of a little over 3%.

With estimated 1960 earnings around $5.52 the price-earnings ratio is approaching 21, putting the stock in the lower fringes of the "growth utility" group. The electric growth utilities, which have become extremely popular marketwise in recent years (and especially in recent months), now sell at multiples of from 20 up to as high as 32 times earnings.

Transition to Date

In the past several years, A. T. & T. has been making a transition from a highly respected but

Long Term Income Data

	American Telephone & Telegraph						Bell Telephone of Canada					
	Total Operating Revenues (Millions)	Depreciation (Millions)	Income Taxes (Millions)	Net Income (Millions)	Net Earnings Per Shares	Net Profit Margin	Total Operating Revenues (Millions)	Depreciation (Millions)	Income Taxes (Millions)	Net Income (Millions)	Net Earnings Per Share	Net Profit Margin
1960 (12 mos. to Nov. 30)	$7,880.3	$N.A.	$1,127.2	$1,243.9	$5.40	15.7%	$300.2[1]	$N.A.	$35.5[1]	$39.6[1]	$1.87[1]	13.2%
1959	7,393.0	930.1	1,081.1	1,113.1	5.22	15.0	376.6	64.8	44.5	50.2	2.39	13.3
1958	6,771.4	843.0	938.6	952.3	4.67	14.0	328.8	55.7	29.1	38.9	2.14	11.8
1957	6,313.8	763.0	773.8	829,8	4.33	13.1	302.9	48.9	27.8	36.0	2.00	11.8
1956	5,825.3	535.2	712.5	755.9	4.39	12.9	273.9	35.5	26.6	34.9	2.25	12.7
1955	5,297.0	487.7	640.9	664.2	4.09	12.5	244.9	31.1	24.6	31.9	2.34	13.0
1954	4,784.5	447.6	520.3	549.9	3.80	11.6	219.3	28.0	23.7	28.5	2.43	13.0
1953	4,416.7	411.3	470.0	478.5	3.77	10.8	201.9	25.3	22.7	26.8	2.31	13.2
1952	4,039.6	380.6	391.4	406.6	3.47	10.0	184.4	22.5	23.7	22.5	2.35	12.2
1951	3,639.4	353.2	339.3	364.8	3.66	10.0	159.0	19.9	16.8	16.2	2.08	10.0
1950	3,261.5	333.7	240.7	346.9	4.04	10.6	128.3	17.9	6.9	10.3	1.33	8.0
10 Years Average	$5,174.2	$548.6	$ 610.8	$ 646.2	$4.14	12.0%	$242.0	$34.9	$24.6	$33.5	$2.34	13.2%

N.A.—Not available. [1]—9 months to Sept. 30.

conservative investment-type issue to membership in the select group of growth stocks. It's true that in 1929 the old stock advanced to 310¼ (equal to 103½ on the present basis), which represented a multiple of about 20.4 times consolidated earnings of $15.22 for that year. But at that time electric utility holding company stocks were selling at extreme ratios as high as 100 times earnings and, at the market peak in August, even the stocks of the operating companies reached 34 times earnings. Hence, Telephone was not placed in the rapid growth stock category by standards prevailing in those days; probably the fact that it adhered to the $9 dividend rate caused it to be rated as an income stock by the speculative fraternity.

At any rate, the company's conservative dividend policy paid off well in later years. In the depression, earnings dropped sharply and, while there was some recovery later, the dividend was not fully earned, but continued to be paid for a number of years.

Following World War II, the Bell System's growth began to accelerate, but in order to get its equity ratio back to the 65% level, as well as to finance a huge construction program to meet the demands for private telephone service, the parent company had to make frequent offerings of common stock and convertible debentures. Thus, during the years 1946-58 inclusive there were twelve issues of convertible bonds and one issue of common stock, stockholders receiving valuable rights in each case.

The resulting dilution of share earnings retarded the profits per share; the $4.19 reported for 1950 (on average shares, adjusted for the 1959 split) was not exceeded until 1955, when $4.37 was reported. Earnings remained about the same for the next two years, but with less frequent financing they began a steady rise to an estimated $5.52 in 1960—an average annual (compounded) rate of gain for the three years of 8.3%.

Stability and Growth

Can A. T. & T. maintain this recent rate of growth? It certainly looks that way, but it seems unlikely that 1961 will show any substantial increase in share earnings over 1960, in view of about 28¢ dilution of earnings resulting from the proposed increase in shares, as well as the slight setback due to the decline in general business. **However, the longer term outlook seems definitely favorable in view of many new or pending developments which promise continued good growth and possibly better profit margins in some areas of the business.**

Automatic dialing has overcome one of the Bell System's main handicaps. Each subscriber must be able to reach every other household or office in the country having a phone, and as the number is constantly growing, this means added expense. Bell has combatted this in the same manner as have the electric utilities, by constantly increasing efficiency

Administration center of the world's first electronic central office (ECO) which is designed to place telephone exchange facilities on an electronic basis.

and the average "output" of each employee. Thus, in 1895 when the number of conversations was only about 50,000 a day compared with over 9 million currently, it took one employee to handle $3\frac{1}{2}$ calls a day. By 1910, there was one employee for each 5 calls; by 1925 over 7 calls were made per employee; by 1940, 10; and in 1959 nearly 15. The number of employees increased quite steadily (except in the early 1930s) to 640,000 in 1957, but two years later it had declined 9% to 582,000. Automatic dialing has, of course, been a major means of increasing the output per employee, and now the non-automatic exchange is the exception rather than the rule. A similar but even more rapid trend has now started on long distance dialing, which should produce new labor economies.

Other Economies in Sight Through "Magic Service System"

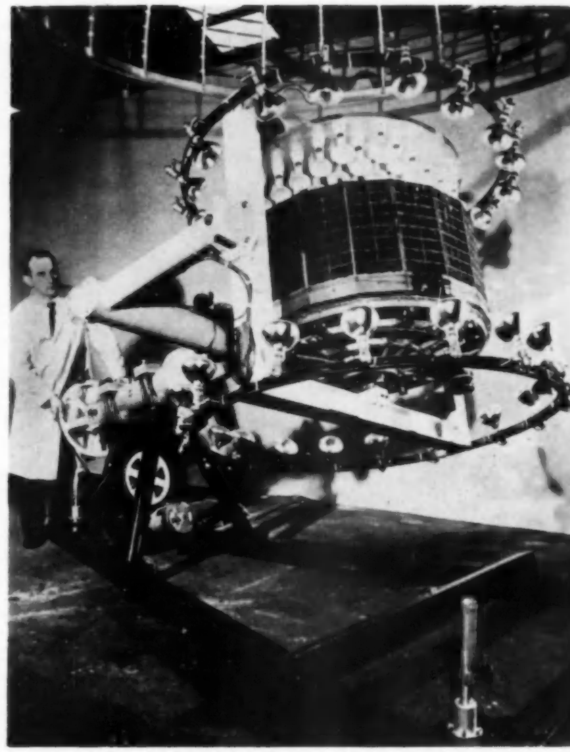
Another avenue for future economies is the long-term program to convert exchange facilities to a transistorized or electronic basis. The company recently began the experimental operation of its first office using the "ECO" system, in Morris, Illinois. The new system, assuming that it is successful, will gradually replace present facilities throughout the country, presumably as the latter wear out during the next decade or so. It is understood that the new equipment can handle about the same amount of traffic with perhaps one-fifth as much space for the switching facilities. The experimental equipment at Morris was extended initially to 62 special telephones, 15 of which could produce two or three of the "magic services" for which the new system is designed; eventually there will be some 600 such customers.

The new system uses a combination of tiny gas tubes, a vast memory system, and thousands of transistors and other solid state devices operating in millionths of seconds. By 1965 the system will go into actual production for eventual use in some 10,000 central offices. It is not clear whether the new equipment will reduce the labor force—it may require a high-priced maintenance force. It seemingly should, however, decrease the cost of constructing new buildings, since existing facilities could handle a big increase in business, and this would mean lower overhead costs and less financing. These economies may begin on a small scale by 1965, and in the meantime the increasing benefits of long distance direct dialing should already help to improve earnings. The cost of providing transmission facilities should also be reduced as new methods of carrying multiple messages over one wire are introduced.

Across The Ocean . . . And Out In Space

In the foreign field there should also be good profit potentials—the intercontinental business is increasing by leaps and bounds. A. T. & T. is increasing the number of its ocean telephone cables (the first one was laid several years ago) and is planning to have its own cable-laying ship. But these cables are designed only to carry telephone conversations and other narrow-band communications.

In order to transmit TV programs and other broad-band communications from America to Europe or vice versa, Bell is planning to use a system of 50 satellites, the first of which it hopes to launch within the coming year. These satellites would receive and amplify signals which would be transmitted to special European ground stations where they would be transferred to land lines.



TIROS II, second of the weather observation satellites, shown mounted in a special test machine that checks the functioning of the satellite's stabilization system in conditions similar to those it will encounter in orbit.

The new satellite is a sphere four feet in diameter and weighing some 175 pounds, which will orbit the earth at an altitude of about 2,200 miles. It will be equipped with electronic devices to receive and amplify signals from earth, then "bounce" them to ground stations in foreign countries.

► Bell Laboratories and Western Electric have already devised and produced the Command Guidance System for Tiros II, the weather satellite now in orbit. The experience gained with the successful Echo satellite (still in orbit) is valuable, although the latter merely acted as a mirror to relay signals, without amplifying them. Just before leaving office, former President Eisenhower gave the Bell System a "green light" for the satellite program.

Intensive Operations in the Field of "Talking" Computers

► A. T. & T. is very optimistic regarding its "data-phone" service which is designed to permit computers and other office machines to "talk to each other" over the regular telephone lines. Magnetic or paper tape, or punched cards, can send some 1,200 bits of information per second over the phone, and the central office of a large industrial company, railroad or utility can thus keep its records up to the minute from data transmitted by branch offices

A. T. & T.'s "data-phone" service which enables computers and other office machines to feed information to each other at high speed over regular phone lines.

over a wide area. It has been forecast that, within the next decade, the volume of communications between electronic business machines in different cities may be as large as telephone communications between people. Such business might well improve profit margins by increasing the use of existing facilities.

► There are many other plans to increase service and efficiency. Bell is planning to introduce "all number" phone numbers, eliminating the use of letters and thus avoiding the problem of setting up new names for central offices. Tests have also shown that pure numbers are 10% faster dialing than the letter-numeral combinations.

► Another new plan is for a flat monthly rate on business long distance calls; an application has already been filed with the FCC to carry out the program. The new system would permit business customers to place any desired number of calls over wide areas and even across the Continent at a flat monthly rate.

► A. T. & T. is now definitely sales-minded and is now providing new devices and services for use both in office and home. While it is still a regulated company, it has built up a store of public goodwill which should help to protect it against overly severe regulation. Costs may be reduced by simplified handling of long distance calls and by the conversion of switching facilities to an electronic basis. Foreign business is growing apace and should have great possibilities for further expansion,

► Data transmission is a completely new field which should prove profitable. ► Bell's coming adventure into the "space age" may be expected to pay off for stockholders.

A. T. & T.'s Little Brother, Bell of Canada

Our neighbor to the North has a smaller counterpart of A. T. & T., Bell Telephone of Canada. A. T. & T. has about a 4% interest in Bell of Canada, but 92% of the shares are held in Canada, where the stock has much the same investment status as A. T. & T. used to have in our markets in quieter days. The stock is listed in Montreal and Toronto and also traded on the American Stock Exchange. **Like A. T. & T., it has paid dividends since 1881. It was split 4-for-1 in 1948 and paid $2 on the new shares until last year when the rate was raised to $2.20. It serves about 60% of the population of Canada, in the provinces of Ontario and Quebec. At the recent price around 49, the stock yields 4½% plus the value of frequent rights.**

Bell of Canada has not enjoyed much growth in share earnings during the past decade but a recent $17 million rate increase (for which the company had to put up a struggle in connection with efforts to make it use accelerated depreciation and give consumers the benefits of tax savings) improved the picture. As a result earnings in 1959 almost recovered to the level of 1954, when $2.43 was earned. In the first nine months of 1960 earnings were up 1¢ over the previous period, indicating $2.40 or more for calendar 1960, on an increased number of shares.

Bell of Canada also has some "hidden earnings" which may not be generally appreciated. It controls 90% of the voting securities of Northern Electric Company, which manufactures and sells telephone and other equipment; Western Electric holds most of the remaining stock. Northern's net profits in 1959 came to $9,155,000, of which only $4,050,000 was paid in dividends to the parent companies.

The increase in Bell of Canada's "fixed" $2 dividend to $2.20 was perhaps just as "sensational" as the increase in A. T. & T.'s $9 rate. The $2 dividend or 8% of par—plus 2% of par for surplus—reflected the historical 10% "fair return on common stock" allowed by the Board of Transport Commissioners, which regulates rates. However, in the 1958 rate case the company's application was based on rates sufficient to provide potential earnings of $2.65 a share and this permitted the increase in the dividend rate to $2.20. (The company has had to pay as high as 6¼% on its bonds, which evidently caused some feeling that the stockholder should also get a higher return.) A further increase in the dividend might present less future difficulty, after the company realizes the full $2.65 potential, plus the 10¢ "hidden earnings."

Considering the company's similarity to A. T. & T., it is possible that it may follow the latter's example marketwise in due course, although the present condition of the Canadian economy may be a delaying factor. It appears likely that the company's expansion program may slow down somewhat, which would space equity financings further apart and thus reduce the frequent dilution of earnings which has occurred in the past. END

THE MOVIES... WHEELERS, DEALERS AND DOLLARS

By DONALD KRAMER

THE motion picture industry, formerly the home of America's lovable and eccentric showmen, has now become the stamping ground of a group of hard headed businessmen who are applying efficient management techniques and foresight to bringing this industry into its best financial condition in over a decade.

Today's motion picture companies have become increasingly cost conscious and profit minded. Of course, these changes cannot overshadow the basic nature of the business, which is still essentially speculative as a result of continually changing public tastes, but it has already made the leading companies more attractive to investors than for a number of years past.

In 1960, despite a 14% decline in the Dow Jones Averages, an uncertain market and ragged business news, movie issues gained a healthy 46% on average, with all but one showing gains of from 20% to 100%.

To find a single causal relationship for such a uniform gain is most difficult and entails a careful study of each individual company, but the substantial values found in land and film libraries together with the excellent earnings from both high grossing blockbusters and television productions accounted in the main for the sharp rise.

Each Company Highly Individualistic

Homogeneity within the industry, however, ends once we have discussed the fact that all of the companies are engaged in the production of motion pictures, and even in this area only some have been successful. Each company has an identifying characteristic about it that provides special appeal for the investor.

All the companies seem to have substantial cash as a result of one deal or another. Some are using it to buy back their own stock; some are diversifying into other fields; and finally others apparently just don't know what to do with the money. All companies have found television a wonderful outlet and source of profits, some by selling their film libraries to television, some by leasing to it, and some by making programs directly for it.

In spite of these differences, however, the companies which performed best marketwise in 1960 were the ones which reported the best gain in profits

from conventional sources. It is not illogical to assume, therefore, that the companies which produce the most profitable films in 1961 will again be the best performers on the stock market as well.

Columbia — the Gem — and the Public

Columbia Pictures, one of the most active participants in the wheeling and dealing business of motion pictures, has accounted for some of the more unusual transactions in the industry. Its latest venture has been the spin off or sale of 300,000 shares of its highly profitable subsidiary, **Screen Gems.**

Columbia's apparent sharp comeback in earnings during 1960 was, however, actually achieved as a result of a new accounting system which conformed more to industry practice. Furthermore, the profit of its highly profitable subsidiary, **Screen Gems.** which has been producing and distributing Columbia films to TV. About 95% of Columbia's 1960 net came from this very profitable source.

So far in 1961, even with the help of Screen Gems, Columbia has been losing money, reporting a loss on operations of about $1 million for the first 13 weeks of the fiscal year. Red ink was, however, quickly turned to black by inclusion of the sale of property which netted a $1.6 million profit in that quarter. With several new pictures in release, the company hopes to turn the corner, although it is doubtful whether the company will become one of the outstanding performers in the 1961 film season.

With Screen Gems, however, there's more than meets the eye, since Columbia will still retain 2,250,000 shares or roughly 1¾ shares for every share of its own. By establishing a market for this profitable subsidiary, free from the drag of Columbia's losses, the parent company can enhance the value of the remaining shares it is holding above the present $25-30 million dollars.

It is impossible to predict the outcome of such developments, or to estimate closely the profits that may be earned from the lease of 200 post-1948 films for television use, but there is enough merit in the situation to warrant temporary retention of the shares until the picture becomes clearer.

Roar, Lion, Roar

Metro-Goldwyn-Mayer, the nation's largest film maker, has recently completed one of its best years in the last decade and seems fairly assured of an even better performance in 1961.

Some of the most important characteristics of this company include its huge assets, substantial cash and relatively minor debt.

During the first wave of pre-1948 film library sales to television, MGM chose to keep its films and merely lease them to TV. Thus, when most movie men were raising substantial cash from the sale of assets long since written off their books, MGM was still holding its films for another day. As a result, the company now owns perhaps the most valuable film library in the business, besides probably the largest real estate holdings, and is generating the most substantial earnings.

During 1961, MGM will again release its award-winning "Gone With the Wind," which grossed over $6 million last time it toured the circuits. Today, however, movie attendance is on the rise and admissions are higher, so that income from this magnificent film could prove to be substantially greater than last time. In addition, "Ben Hur" should continue to generate a large gross, and profits beyond distribution fees will begin to mount now that initial costs have been recovered.

MGM now has in production several important new films which may produce heavy gross once "Ben Hur" begins to taper off. These big films include: 'King of Kings," "The Four Horsemen of the Apocalypse," and "Mutiny on the Bounty."

Recently MGM acquired **Verve Records** which will add about 30% in volume to its record division and is planning to enter the television program market this year on a much broader scale than in the past.

Obviously prediction is uncertain as public tastes are fickle, but it seems entirely possible that a successful venture in any one of the areas outlined will add materially to the company's earnings and inherent value. The very profitable films of today can easily become the most valuable libraries of tomorrow.

One brief word of caution.... MGM's price is substantially higher than it has ever been, and further gains will become increasingly dependent upon future successes rather than past glories. Thus, although MGM does shape up as one of the best in almost all departments, it will be entirely up to the company's excellent management to continue this fine performance.

Money, Money, Money

The single most important feature describing **Twentieth Century-Fox** is cash. This leading film producer has successfully concluded the largest land sale of any major motion picture company. Twentieth's lush studio lands went to Webb and Knapp for some $43 million dollars, which will be added to the $20 million already on hand.

Money leads, however, to problems, and the investment appeal for this stock will be largely dependent upon what is done with the funds just obtained. As Twentieth has already been actively buying back its own stock in the past, a tender offer for additional shares would not be unlikely. Other companies faced with similar decisions have variously diversified, plowed the money back into the business or paid it out to stockholders ... with Fox it's anybody's guess.

Meanwhile, Twentieth's film fare has been frankly disappointing from a profit standpoint, despite the fact that the company released some excellent pictures during 1960. "Cleopatra," a high budget blockbuster, scheduled for the 1961 movie season has also run into unforeseeable delays and extraordinary expenses which could cause this film to be a thorn in the company's side rather than a valuable asset.

Two of the latest deals concluded by Twentieth Century were the sale of its overseas theatre properties and the licensing of some 58 post-1948 films to **National Telefilm Associates.** Each of these moves will add to the cash already in the till.

The substantial debt which the company must eventually pay ... about $30 million dollars ... must, of course, be subtracted from these high asset values. **Still Twentieth Century-Fox, even at its present advanced price, has considerable appeal for investors, for the near term at least. Naturally, the**

Statistical Data on Leading Motion Picture Companies

	Interim Earnings				Full Year						
	Net Sales (Millions)		Net Earnings Per Share		Net Per Share		Cash Earnings Per Share	Indic. Current Div. Per Share *	Price Range	Recent Price	Div. Yield %
	1959	1960	1959	1960	1959	1960	1960		1960-61		
Columbia Pictures	$N.A.	$N.A.	$.65[1]	$.35[1]	$d2.10[2]	$1.28[2]	$2.44	$ [10]	26⅞-14⅝	22	—
Metro-Goldwyn-Mayer	27.6[3]	30.1[3]	.71[3]	.87[3]	2.91[4]	3.83[4]	4.37	1.60	47½-24⅞	46	3.4%
Paramount Pictures	N.A.	N.A.	3.88[5]	3.67[5]	2.62	2.50[6]	5.51[7]	2.00	67⅝-39½	57	3.5
Twentieth Century-Fox Film	85.9[5]	86.6[5]	1.25[5]	1.57[5]	1.78	2.75[6]	2.13[8]	1.60	45⅝-30	43	3.7
United Artists Corp.	72.0[5]	80.6	1.73	1.79	2.47	2.50[6]	N.A.	1.60	35⅞-23⅝	32	5.0
Universal Pictures **	N.A.	N.A.	d.04[5]	5.71[5]	.95	6.92	1.63[8]	1.25	54 -28¼	48	2.6
Walt Disney Productions	58.4[9]	46.4[9]	2.15[9]	d.83[9]	2.15[9]	d.83[9]	.56	.40[11]	49¼-20	33	1.2
Warner Bros. Pictures	87.0[4]	92.0[4]	5.91[4]	4.65[4]	5.91[4]	4.65[4]	4.71	1.20	54¼-37⅝	53	2.2

**—87% owned by Decca Records, Inc.
*—Based on latest dividend reports.
N.A.—Not available.
d—Deficit.
1—13 weeks ended Sept. 30.
2—Years ended June 30.
3—12 weeks ended Nov. 24.
4—Years ended Aug. 31.
5—1st 9 months.
6—Estimated.
7—After extraordinary items.
8—1959.
9—Year ended Oct. 31.
10—5% stock.
11—Plus stock.

absence of high earnings from motion pictures adds considerably to the risks, but the prospect of a tender offer looms favorably for the present, making the retention of current commitments justified.

Tolls, Television and Telemeter

In addition to its motion picture interests, **Paramount Pictures** has been the only major film company to actively promote and create a Pay-TV system. While participation in this field by a leading company is quite ticklish in view of the violent opposition by theatre groups, Paramount has been able to maintain good relationships on both sides of the fence.

During 1960 Paramount's film earnings were saved by an unexpectedly heavy gross from the financially successful "Psycho." However, earnings as a whole have been trending downward as a result of the void left by the unusual success of "The Ten Commandments," which had its greatest impact upon 1958 results.

In two recent deals, Paramount exchanged its major holdings in two relatively small electronics companies for the shares of both Ampex and Fairchild Camera, respectively. In each instance the shares Paramount received have subsequently depreciated materially from their prices at the time of the exchange. Paramount is now merely a large stockholder in these companies rather than the controlling factor, and it is entirely possible that it may decide to divest itself of these holdings in time. One possible way would be to reduce its capitalization by a tax-free exchange of its own shares for the Ampex and Fairchild stock it now owns. This is, however, in the realm of pure speculation and would need clearance from the Tax Department as well. As yet Paramount has made no announcement on the subject.

In the area of subscription television **Paramount** has been particularly active. Its subsidiary **International Telemeter** has been conducting extensive tests in Canada and expects to broaden such activities to Little Rock, Arkansas, for the first Telemeter test in the United States. The future of this industry is still in doubt, but its profit potential captures the imagination. The shares of Paramount may be affected either favorably or adversely as news regarding these tests continues to break.

Another part of Paramount's electronics activities includes the development of a three-color chromatic television tube which could be a major advance in forwarding color television on a wide scale. The all important factor will be cost, and in this area we cannot be so sure of success. Nevertheless, possible luck in this area also looms in the earnings picture for the company. Finally, the existence of a large asset position in the form of both land and libraries, all of which is in the form of post-1948 films, deserves the investor's consideration. Paramount also controls a major Canadian theatre chain.

In view of the numerous ventures in which Paramount is engaged, speculative possibilities in this situation are obviously rather broad while the risks are equally substantial. It is our view that the stock may be too volatile for investment purposes although speculative retention is warranted.

The Investment Bankers

United Artists, originally formed by a group of well known movie stars including Douglas Fairbanks and Mary Pickford, was on the verge of financial collapse when present management stepped in and made some drastic changes. The company then turned the corner by financing and distributing motion pictures made by independent producers. In this manner it was able to offer the maximum amount of flexibility without burdensome studio overhead, or excessive risk. This formula is now being used by many companies in the industry, but United continues to lead the field, having been the first to offer the independents this service. As a result the company has been able to achieve five straight years of increasing revenues and earnings.

Naturally, the company has had to raise considerable capital in order to be able to finance the independents, and substantial common share dilution has been the result—as convertible debenture followed convertible debenture. The growth in per share net has not kept pace fully with the increasing number of shares *(Please turn to page 575)*

FOR PROFIT AND INCOME

February Markets

February has brought some net decline in stock prices more often than not. Probably the reason is that January gains in roughly two years out of three have established basis for technical correction avoidable only when conditions and sentiment have been definitely bullish. The industrial average has lost ground in February in 34 of the last 64 years, risen in 30. For rails, the record is worse, with declines in 37 years, gains in 27. At this writing the technical position could well argue for reaction. The business and earnings trends are, of course, adverse. What sentiment may be over the near term is conjectural, as usual. However, we have now had a fairly extended period of rising optimism based on bullish assumptions as to what lies ahead in the second half and beyond for an indefinite time. Some cooling down seems in order. Otherwise, the market would be at an uncommonly inflated level by the time recovery in earnings begins—whenever that might be.

Dividends

Aggregate dividend payments rose little over 4.3% in 1960 but for December were only nominally above the year-earlier level. As in recent months, an increasing number of companies will cut or omit payments during the first half and the increases will be fewer. Total 1961 payments will do well to approximate last year's and could be slightly lower. There will be a sizable number of increases by utilities and other companies which are largely or fully immune to the business recession and which have rising earnings. Among electric utilities, likely candidates for dividend boosts include the following: Boston Edison, Central Illinois Public Service, Central & South West, Houston Lighting & Power, Pacific Gas & Electric, and Texas Utilities. Some possibilities in other lines of business are American Home Products, C.I.T. Financial, Emerson Electric, McGraw-Hill, Proctor & Gamble, Scott Paper, Shamrock Oil & Gas, and Reynolds Tobacco.

A Speculation

Among makers of athletic and

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Spalding (A. G.) & Bros.	Year Oct. 31	$1.45	$1.15
Wilson Jones	Year Oct. 31	2.12	1.24
Superior Oil Co.	Quar. Nov. 30	13.32	6.92
Pillsbury Co.	6 mos. Nov. 30	1.72	1.52
Collins & Aikman	Quar. Nov. 26	.80	.57
Beatrice Foods Co.	9 mos. Nov. 30	1.81	1.72
Schenley Industries, Inc.	Quar. Nov. 30	.85	.81
Atlantic City Electric	12 mos. Nov. 30	1.57	1.43
Distillers Corp. - Seagrams	Quar. Oct. 31	1.33	1.23
Hat Cop. of America	Year Oct. 31	1.34	1.29

sports goods, Spalding (A. G.) & Brothers, Inc., has one of the oldest and best known names. With subsidiaries, the company makes equipment and supplies used in golfing, baseball, football, basketball, skiing and tennis. Aside from the U.S., plants and/or branch distributing facilities are operated in Canada, Puerto Rico, England, Scotland, Australia and New Zealand. The older profit record was poor, but steady progress has been made under new management since 1956. Net income has risen for three consecutive years, almost tripling over the period. Despite about a 13% dilution from debenture conversion in 1959 and also dilution from payment of 3% semi-annual stock dividends, reported earnings rose from $0.79 a share in 1957 to $1.45 in the year ended last October 31. A sizable gain seems likely this year. Possible divestment of one acquired domestic division under a Federal Trade Commission order could pare sales for a time, but is being legally contested and at worse would not seem likely to check earnings betterment more than temporarily. The company is controlled by Dunhill International and Pyramid Rubber, each with over 20% stock interests. Dividends probably will continue to be paid in stock only. The stock is not cheap at 24 in a 1960-1961 range of 29¾-17, but it is in the generally favored field of recreation business. The present management is doing a good job in boosting efficiency and expansion, and earnings are in an apparent uptrend.

These considerations, therefore, could invite and justify speculative buying.

Inside The Market

At this writing the best-acting stock groups in the market are principally beer stocks, confectionery, drugs, food stores, building materials, finance companies, baking, dairy products, food brands, meat packing, motion pictures, oils, bank and insurance stocks, tobaccos and utilities. Current laggard groups include aircraft, air lines, automobiles, auto parts, chemicals, coppers, electrical equipment and appliances, electronics-TV, machinery, metal fabricating, rail equipment and steels.

Revlon

The stock of this leading maker of cosmetics and toiletries was initially recommended here in November, 1958, at 40. It recently ran up to a high of 97¾ prior to announcement of a proposed 2-for-1 split and a dividend boost which will equal a $2.20 rate on the present shares, against $2.00 previously. At this writing the stock is at 93. The split news is only part of the story. Most of the stock's rise from a reaction low around 55 last autumn amounted to speculation on possibly big potentials in a new product the company has ready for marketing. It is reported to be a cream claimed to be effective as a remedy or corrective for wrinkles in the skin, developed by Ciba Pharmaceutical Products, Inc., with U.S. rights licensed to Revlon. Marketing awaits authorization by the Federal Drug Administration. Our surmise is that Revlon probably would not have decided on a stock split at this time if the management were not reasonably confident of being permitted to launch this new product. Assuming it has merit, the market might be huge, the profits large. Pending developments, our advice to holders of the stock is to stay with it.

Too High?

Polaroid, a market sensation especially on the 1958-1960 rise, may have "shot its bolt." The stock reached a high of 261¾ last August for a valuation around 90 times earnings. It is currently down to 183 which is close to 60 times earnings; and has lost considerable ground over the period since late last October, during which the industrial average has had a net rise of about 77 points. Polaroid may still perfect color film for its patented "Picture-in-a-Minute" Land camera, and that could add importantly to earnings. However, there will be indirect competition from a new, inexpensive device for quick and simple home development of black-and-white or color film which has been "shot" in any camera of any make. Any hint or suspicion that Polaroid may not have a clear road to strong profit growth for an indefinite time to come would appear sufficient to take the bloom off this rose and to result in a lower valuation of earnings. Nobody can say how much lower the stock might go. If we owned it, we would take profits. If not, we would not buy.

Another Look

Here are some earlier recommendations made here, prices at which they were recommended, current prices and present advice: Emerson Electric at 31 (adjusted for split), now 57, retain holdings. Spiegel at 32, now 48, stay with it. Walgreen at 51, now 62, retain holdings. Harris-Intertype at 37, now 54, still worth holding. Armstrong Cork at 44, now 56, stay with it. Gerber Products at 55, now 71 on 2-for-1 split news, still a good holding. Drewrys at 30, now 35, should work higher. Falstaff Brewing at 30, now 38, stay with it. Continental Insurance 47, now 59, still reasonably priced. Metro-Goldwyn-Mayer 33, now 46, still merits holding. Deere at 44, now 58, stay with it. Twentieth Century-Fox Film 36½, now 46 with further possibilities. American Broadcasting-Paramount at 25, now 43, stay with it. Tennessee Corp. at 40, now 55 and a sound holding. Beneficial Finance at 24, now 35, stay with it. Commercial Credit at 57½, now 79 on split news, continue to hold. END

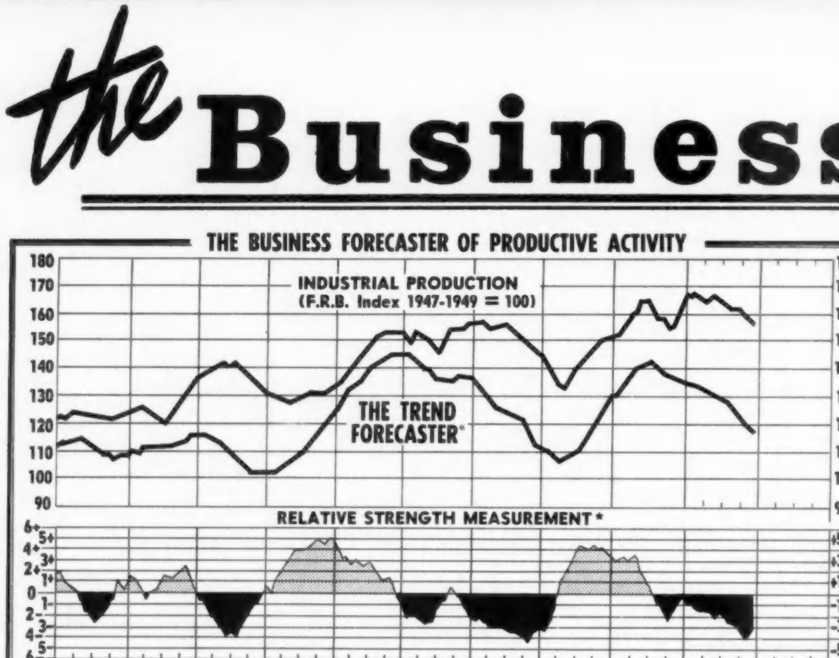
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Western Air Lines	11 mos. Nov. 30	$1.59	$4.15
Air Control Products	Quar. Oct. 31	.14	.36
Elgin National Watch	12 weeks Dec. 4	.72	1.01
Penn Fruit Co., Inc.	12 weeks Nov. 19	.30	.41
Chesapeake & Ohio Rwy.	Year Dec. 31	5.15	5.60
Pacific Tel. & Tel.	Quar. Nov. 30	.35	.39
Kroehler Mfg. Co.	12 weeks Oct. 9	.05	.63
Sterchi Bros. Stores	9 mos. Nov. 30	.85	1.14
Montgomery Ward & Co.	Quar. Nov. 2	.29	.62
King-Seeley Corp.	Quar. Oct. 31	.87	1.30

the Business

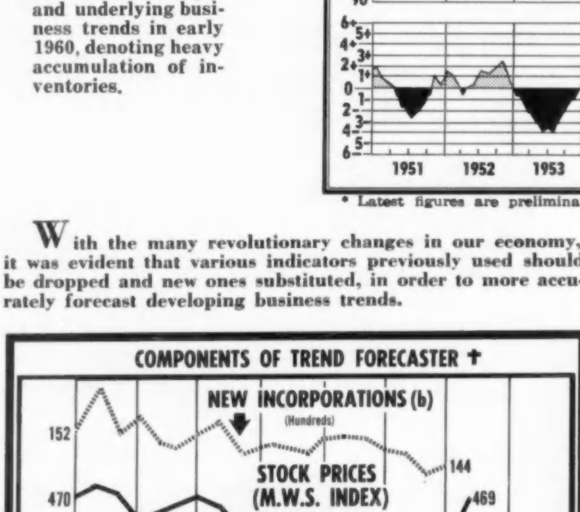
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the latest month for which data are available, trends of the components of the Forecaster were virtually at a stand-off, with four indicators advancing, three declining and one unchanged. The advances in most cases have been too short-lived and moderate as yet to affect the intermediate trend and as a result the Relative Strength Measure is still in the minus 3 areas. Four of the indicators were higher in the latest month; namely new incorporations, industrial raw materials, stock prices and business failures (inverted). Nonresidential contract awards marked time while housing starts, new orders and hours worked, all were lower.

Although the Relative Strength Measure is still at the unfavorable minus 3 level, the probabilities that it will improve are enhanced by the fact that four of the indicators advanced in the latest period. If the R.S.M. strengthens appreciably before the winter is out, it will be telling us that the current recession is going to be exceptionally mild.

Analyst

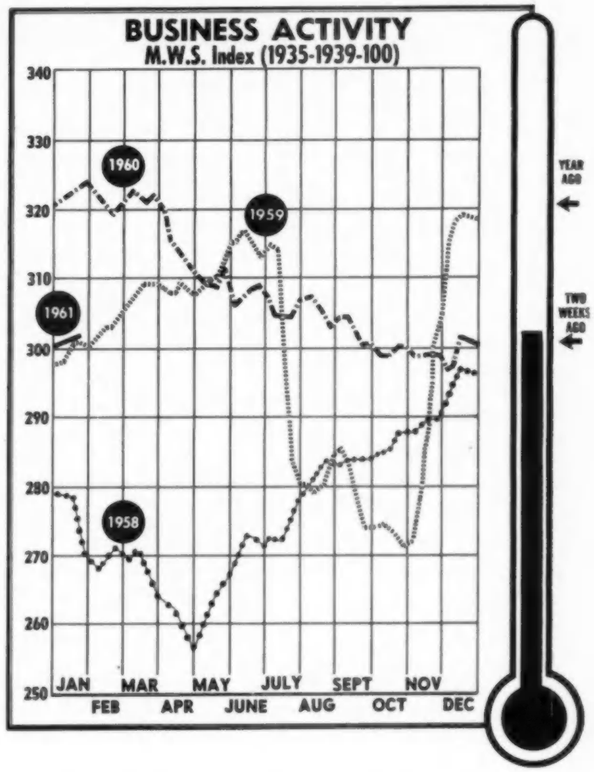
CONCLUSIONS IN BRIEF

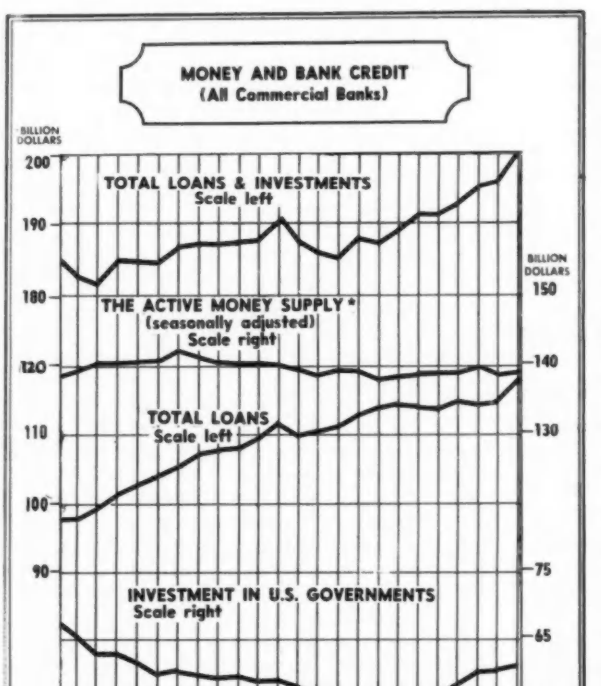
PRODUCTION—Industrial output is still receding, paced by sharp cuts in auto assemblies, where inventories are top-heavy and sales disappointing. No imminent upturn is to be expected in view of widespread effects of slowdown on the economy in general.

TRADE—Retail sales still on downward slope, with bad weather only partly to blame. Lower incomes and rising unemployment are reinforcing consumer caution, which may not be reversed in the near future.

MONEY & CREDIT—Bond prices and money rates both marking time as financial community awaits resolution of such conflicting forces as current dearth of new borrowing, expected increase in Government spending and Administration drive for lower long-term interest rates.

COMMODITIES—Raw industrial materials moving higher as reduced output cuts supplies. Increased Government spending would spur demand both in this field and for commodities in general.





BUSINESS has continued to decline on a broad front in recent weeks, although the pace of the downturn has remained moderate. Although conditions sometimes "look darkest just before the dawn," there are no signs as yet that the contraction has run its course.

Examination of recent business developments amply confirms the fact that we are still in a broad readjustment that may continue for some time. Industrial production, for example, has been declining steadily since last July and has fallen further in January while new orders for durable goods at the end of December were at their lowest level in two years and are still receding according to the recent report of the National Association of Purchasing Agents. Manufacturers' order backlogs are at a ten-year bottom and housing starts are back to the depressed levels of 1958. Nor have the sectors that were counted on to bolster the economy been of much help in recent months. Consumer buying of goods has been slowly receding since October, and personal income, which resisted the downtrend for a while, weakened perceptibly at year-end, with December income down to $406.7 billion at seasonally adjusted annual rates—a $2.8 billion drop from the October peak. In these areas, figures for the month of January will contain further disappointments, as is evident from the recent slump in auto sales and the further rise in unemployment.

Despite these disquieting statistics, some observers remain in an optimistic frame of mind, contend-

(*Please turn to the following page*)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	156	159	165
Durable Goods Mfr.	1947-'9-100	Dec.	156	160	174
Nondurable Goods Mfr.	1947-'9-100	Dec.	157	158	158
Mining	1947-'9-100	Dec.	126	128	130
RETAIL SALES*	$ Billions	Dec.	18.4	18.6	17.5
Durable Goods	$ Billions	Dec.	6.0	6.0	5.3
Nondurable Goods	$ Billions	Dec.	12.4	12.5	12.2
Dep't Store Sales	1947-'9-100	Dec.	146	142	146
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	28.8	29.0	30.7
Durable Goods	$ Billions	Dec.	13.4	13.6	14.8
Nondurable Goods	$ Billions	Dec.	15.4	15.4	16.0
Shipments*	$ Billions	Dec.	28.9	29.3	30.8
Durable Goods	$ Billions	Dec.	13.6	13.8	15.0
Nondurable Goods	$ Billions	Dec.	15.4	15.4	15.8
BUSINESS INVENTORIES, END. MO.*	$ Billions	Dec.	92.2	92.7	89.4
Manufacturers'	$ Billions	Dec.	53.7	54.0	52.4
Wholesalers'	$ Billions	Dec.	13.2	13.3	12.6
Retailers'	$ Billions	Dec.	25.4	25.4	24.3
Dept. Store Stocks	1947-'9-100	Nov.	169	167	160
CONSTRUCTION TOTAL—†	$ Billions	Dec.	54.8	55.0	55.4
Private	$ Billions	Dec.	38.9	38.7	40.1
Residential	$ Billions	Dec.	22.0	21.5	23.9
All Other	$ Billions	Dec.	16.9	17.2	16.2
Housing Starts*—a	Thousands	Dec.	990	1212	1451
Contract Awards, Residential—b	$ Millions	Dec.	879	1253	993
All Other—b	$ Millions	Dec.	1840	1633	1231
EMPLOYMENT					
Total Civilian	Millions	Dec.	66.0	67.2	65.7
Non-farm*	Millions	Dec.	52.5	52.8	52.7
Government*	Millions	Dec.	8.6	8.5	8.3
Trade*	Millions	Dec.	11.6	11.6	11.5
Factory*	Millions	Dec.	11.7	12.0	12.4
Hours Worked	Hours	Dec.	38.8	39.2	40.6
Hourly Earnings	Dollars	Dec.	2.32	2.30	2.27
Weekly Earnings	Dollars	Dec.	90.02	90.16	92.16
PERSONAL INCOME*	$ Billions	Dec.	407	409	394
Wages & Salaries	$ Billions	Dec.	271	274	265
Proprietors' Incomes	$ Billions	Dec.	61	61	60
Interest & Dividends	$ Billions	Dec.	42	42	38
Transfer Payments	$ Billions	Dec.	31	30	28
Farm Income	$ Billions	Dec.	17	17	17
CONSUMER PRICES	1947-'9-100	Nov.	127.4	127.3	125.6
Food	1947-'9-100	Nov.	121.1	120.9	117.9
Clothing	1947-'9-100	Nov.	110.7	111.0	109.4
Housing	1947-'9-100	Nov.	132.1	132.2	130.4
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	110.8	110.6	112.0
Bank Debits*—g	$ Billions	Dec.	94.8	98.4	93.7
Business Loans Outstanding—c	$ Billions	Dec.	33.0	32.8	31.4
Instalment Credit Extended*	$ Billions	Nov.	4.1	4.1	4.2
Instalment Credit Repaid*	$ Billions	Nov.	3.9	4.0	3.7
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	7.6	6.3	7.3
Budget Expenditures	$ Billions	Dec.	6.8	6.8	6.6
Defense Expenditures	$ Billions	Dec.	4.2	3.9	4.2
Surplus (Def) cum from 7/1	$ Billions	Dec.	(4.9)	(5.7)	(5.6)

PRESENT POSITION AND OUTLOOK

ing that recent reports are water over the dam, expressing assurance that the economy will "bottom out" and begin to turn upward before many months have passed. They justify their views on two counts—one based on the pattern that the downturn has taken thus far, the other, on the prospect of decisive action by the new Administration to effectively stimulate the economy. The first of these views is predicated on the argument that the extent of a recession in the past could usually be gauged by the pace of decline in the first six months of the downturn. As the contraction that started last Spring has been one of the mildest on record, it is reasoned that the entire recession will be mild and short-lived. This may not apply in the present instance however, in view of the fact that the recline was tempered last year by actions of the Eisenhower Administration.

The second source of confidence in the outlook has been derived, of course, from developments on the political front. The wave of goodwill that a new President often arouses, has been accompanied by widespread hope in Kennedy's ability to get things moving. And the President has acted with dispatch in presenting his program. In his State of the Union and Economic messages, he has outlined his prescription for curing our economic ills. Although these messages are covered in detail in the article in this issue by Malcolm Stewart, we would note here that the avowed aim of many of the measures he is espousing is to provide the economy with a strong upward lift. However, the cost of these proposals, plus stepped-up spending for defense, is still unknown, although it would undoubtedly mean a sharp rise in Federal expenditures. Nor is it yet clear just how these increased outlays would be paid for. At one point, the President maintained that a spending increase would be counterbalanced by higher revenues resulting from the ensuing stimulation of the economy, a theory that in the past has failed to work far more often than it has succeeded. Later, the President stated that spending proposals would in each instance be accompanied by

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter III	1960 Quarter II	1960 Quarter I	1959 Quarter III
GROSS NATIONAL PRODUCT	503.0	505.0	501.3	481.4
Personal Consumption	328.5	329.0	323.3	316.0
Private Domestic Invest.	70.5	75.5	79.3	67.5
Net Exports	3.5	2.0	1.2	—0.2
Government Purchases	100.5	98.6	97.5	98.1
Federal	52.5	51.7	51.8	53.6
State & Local	48.0	46.9	45.7	44.5
PERSONAL INCOME	408.0	404.2	396.2	384.8
Tax & Nontax Payments	50.5	49.9	49.2	46.3
Dispensable Income	357.5	354.3	347.0	338.5
Consumption Expenditures	328.5	329.0	323.3	316.0
Personal Saving—d	29.0	25.2	23.7	22.5
CORPORATE PRE-TAX PROFITS	41.5	45.7	48.8	45.3
Corporate Taxes	20.3	22.3	23.8	22.3
Corporate Net Profit	21.3	23.4	25.0	22.9
Dividend Payments	14.0	13.9	13.9	13.6
Retained Earnings	7.3	9.5	11.1	9.3
PLANT & EQUIPMENT OUTLAYS	35.9	36.3	35.2	33.4

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 21	303.2	302.4	324.3
MWS Index—Per capita*	1935-'9-100	Jan. 21	217.7	217.1	236.2
Steel Production Index*	1957-'9-100	Jan. 21	80.5	79.6	146.4
Auto and Truck Production	Thousands	Jan. 28	126	120	216
Paperboard Production	Thousand Tons	Jan. 21	310	305	322
Paperboard New Orders	Thousand Tons	Jan. 21	297	294	331
Electric Power Output*	1947-'49-100	Jan. 21	272.0	269.1	261.1
Freight Carloadings	Thousand Cars	Jan. 21	490	516	587
Engineerings Constr. Awards	$ Millions	Jan. 26	269	360	245
Department Store Sales	1947-'9-100	Jan. 21	107	129	113
Demand Deposits—c	$ Billions	Jan. 18	61.5	61.2	62.3
Business Failure—s	Number	Jan. 19	340	335	302

PRESENT POSITION AND OUTLOOK

recommendations that would increase revenues, but thus far there has been no clarification of what this would entail.

Some people, however, are blithely ignoring the practical aspects of these problems and are rising eagerly to the scent of bigger Government outlays. Increased expenditures, however, may not prove to be the panacea that some are expecting. There still remains the hard question of financing such spending, which could result in serious inflation and an ultimate debacle on the one hand, or unwelcome additions to our tax burdens on the other. In any event, these considerations will come increasingly to the fore in the months ahead, at which time there may be more widespread realization of the sobering problems that confront us.

Whether their view will ultimately prevail or not, there are sources with access to the Administration who hold that balancing the budget in any one year is unimportant, provided it is balanced on the average over the longer term. Thus, if a continuing business recession so justified, a large budget deficit could be incurred and ignored temporarily.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1961 High	1961 Low	1961 Jan. 20	1961 Jan. 27
Composite Average	482.5	410.9	474.3	477.4
4 Agricultural Implements	439.4	346.4	435.5	435.5
3 Air Cond. ('53 Cl.—100)	132.4	105.8	132.4	131.1
9 Aircraft ('27 Cl.—100)	1168.4	861.9	1168.4	1114.8
7 Airlines ('27 Cl.—100)	1044.6	736.7	919.4	968.3
4 Aluminum ('53 Cl.—100)	521.3	354.5	413.4	425.5
5 Amusements	331.1	209.3	331.1	328.0
5 Automobile Accessories	531.1	401.0	447.0	430.8
5 Automobiles	157.0	90.8	97.2	96.2
3 Baking ('26 Cl.—100)	39.8	34.9	38.2	39.8
4 Business Machines	1434.4	1159.1	1434.4	1421.4
6 Chemicals	809.6	657.3	782.8	790.2
4 Coal Mining	36.0	27.2	31.2	32.4
4 Communications	234.4	199.9	227.0	222.7
9 Construction	184.4	143.3	182.7	184.4H
5 Container	1064.7	824.6	935.7	961.7
5 Copper Mining	347.6	275.4	300.2	305.7
2 Dairy Products	217.8	146.8	201.9	203.9
5 Department Stores	156.7	135.2	151.0	152.5
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	395.1	399.0
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	333.7	337.1
3 Finance Companies	874.9	648.8	834.8	874.9H
5 Food Brands	624.5	419.3	585.5	624.5H
3 Food Stores	270.8	232.1	262.2	265.3

(Nov. 14, 1936 Cl.—100)	High	Low	Jan. 20	Jan. 27
High Priced Stocks	299.9	262.7	295.2	299.0
Low Priced Stocks	653.8	527.6	610.2R	611.4
5 Gold Mining	1226.0	810.8	1215.0	1127.4
4 Investment Trusts	170.6	136.5	146.9	148.3
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1279.0	1279.0
7 Machinery	525.6	402.9	520.8	525.6H
3 Mail Order	446.1	364.2	421.3	421.3
4 Meat Packing	293.1	223.9	282.7	293.1H
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	155.8	158.7
9 Metals, Miscellaneous	399.1	313.3	372.6	379.3
4 Paper	1237.1	867.3	1011.6	1021.4
16 Petroleum	771.4	609.0	750.0	771.4H
16 Public Utilities	416.3	341.6	412.3	416.3H
6 Railroad Equipment	99.8	75.8	88.6	90.2
17 Railroads	70.1	49.9	59.2	57.6
3 Soft Drinks	974.8	690.3	965.4	974.8H
11 Steel & Iron	464.9	325.4	366.6	369.9
4 Sugar	100.9	63.0	83.6	88.4
2 Sulphur	747.7	563.1	740.7	747.7H
11 TV & Electron. ('27—100)	119.4	86.8	103.4	102.4
5 Textiles	233.0	183.3	213.7	217.6
3 Tires & Rubber	255.9	170.6	193.7	195.5
5 Tobacco	245.6	182.5	236.4	245.6H
3 Variety Stores	382.1	349.3	356.5	356.5
14 Unclassif'd ('49 Cl.—100)	295.1	224.0	253.3	253.3

H—New High for 1960-1961. L—New Low for 1960-1961. R—Revised.

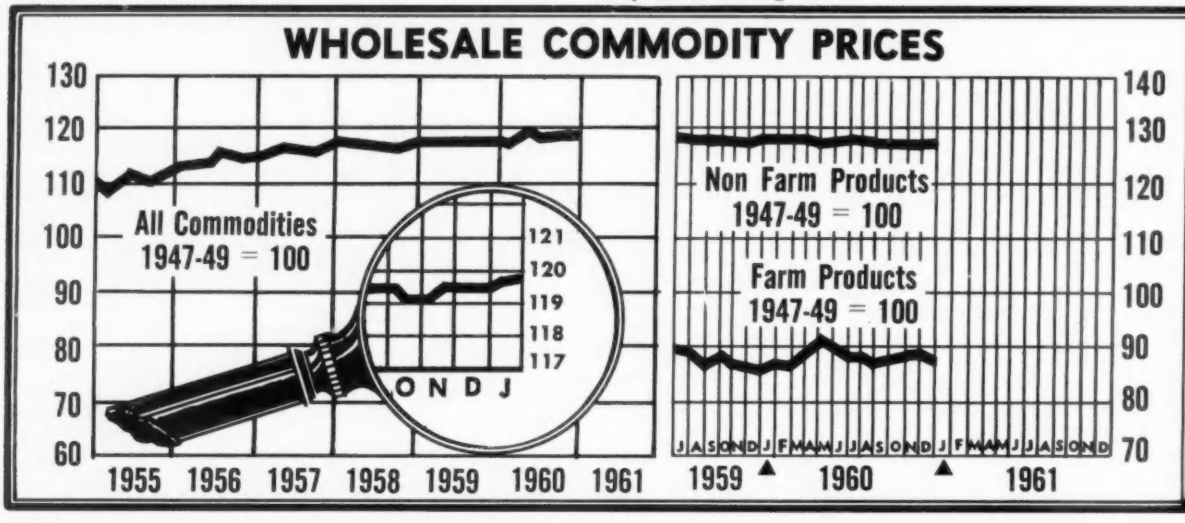
Trend of Commodities

SPOT MARKETS—Spot prices for sensitive raw materials continued to move upward in the two weeks ending January 27th, and the BLS daily index of 22 such commodities rose 0.7% during the period, to close at 83.7. The raw industrial materials component showed moderate improvement, lead by the textiles. Burlap, cotton, wool tops, tallow and tin, all were higher, while only hides and rubber declined. The improvement in raw industrial material prices in January has been the result of a low level of inventories in this field and cuts in production. As a result prices should move higher in the weeks ahead.

Indexes of the broad rank and file of commodities were little changed in the period under review, and price changes are expected to remain moderate for some time to come.

FUTURES MARKETS—Prices of futures were mostly higher in the two weeks ending January 27th. Grains advanced despite large supplies, soybeans jumped spectacularly and some industrial materials improved. Wheat, corn, oats, soybeans, lard, cotton, wool, coffee, copper and lead, all were in the plus column, while lower prices were recorded for world sugar, cocoa, hides and coffee.

Wheat futures advanced in the period under review and the May option added 4¾ cents to close at 213. Although supplies are large, buying of the grain was stimulated by unfavorable crop conditions abroad and high rate of exports. Traders are keenly aware that the trend of wheat prices will greatly depend on the Administration's still-to-be-unveiled farm program and possible legislative action by the new Congress.



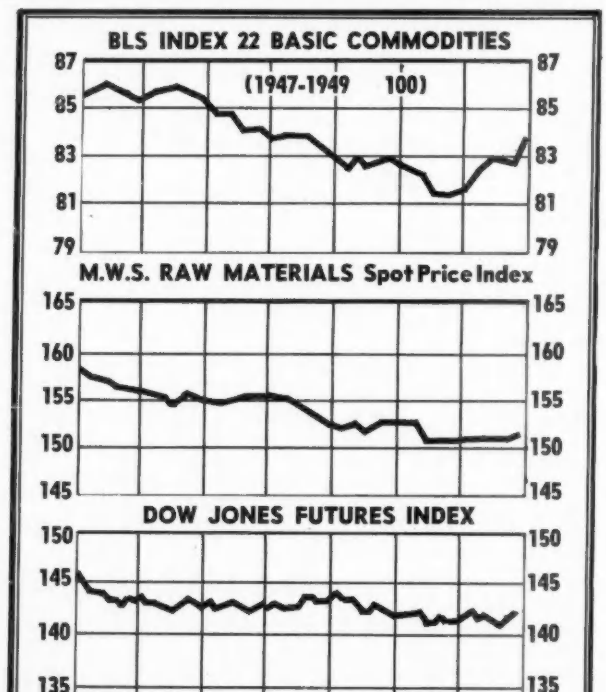
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 24	119.9	119.8	119.3	60.2
Farm Products	Jan. 24	89.8	89.7	86.5	51.0
Non-Farm Products	Jan. 24	128.1	128.0	128.8	67.0
22 Sensitive Commodities	Jan. 27	83.7	83.1	84.9	53.0
9 Foods	Jan. 27	78.4	77.5	72.5	46.5
13 Raw Ind'l. Materials	Jan. 27	87.4	87.0	94.7	58.3
5 Metals	Jan. 27	85.2	85.2	100.2	54.6
4 Textiles	Jan. 27	83.6	81.6	80.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Wheelers, Dealers and Dollars

(Continued from page 567)

resulting from this policy, but the common holders have benefited by owning a substantially stronger company and receiving increasing dividends.

1960 was an excellent year for United in terms of motion picture releases, and the company is looking forward to further gains in 1961. "Exodus," the company's newest and biggest release, is purportedly doing senesational business, while "West Side Story" and a host of others will be ready for release later this year.

United, however, receives only a portion of the profits from these films in addition to distribution fees (in the case of "Exodus," only 25%). As a result its risk is substantially lessened in the event of an unsuccessful production, while a consistent run of good films could conceivably add up to excellent total profits.

Management has made some shrewd decisions as the company moved progressively forward in the television field. Early in 1960 United Artists acquired **ZIV Television Programs,** which today handles the distribution to television of both Warner Bros. and RKO's pre-1950 television libraries in addition to United's own films.

From a shareholder's point of view, United offers a generous 5% return ... best in the industry ... but offers little hope for any substantial improvement due to the continued conversion of both convertible bonds and the management's class B non-dividend paying stock into regular common.

While it is impossible to forecast public tastes, it is reasonable to assume that United will continue to work with some of the best talent and producers to perpetuate its string of successful motion pictures. The greatest risk to shareholders, therefore, is the possibility of further dilution, since United has the least cash and heaviest debt of any in the motion picture group.

Should the company be able to secure a more convenient method of financing, shareholders could well participate fully in the growth pattern of this company. Obviously, commitments should be retained both for the ample return and the speculative possibility of moderate capital gains.

The World of Universal

Universal Pictures, formerly a mass producer of low-budget films, has made a most dramatic comeback in recent years. This company was the first to shed its burdensome studio overhead costs and increase its flexibility in production. The next step in its metamorphosis was the upgrading of its films, which met with favorable acceptance from theatre audiences. The happy result was a record $6.92 per share profit for Universal in 1960.

Last year the company took its first giant step by releasing its newest blockbuster, "Spartacus," a whopping $12 million dollar investment. This motion picture, released on a reserved seat basis, has been meeting with unusual success. Unfortunately, however, its performance is often compared with MGM's highly successful "Ben Hur." Even if "Spartacus" does not gross as much as its well known competitor, its effect on Universal, a considerably smaller company than MGM, will be significant. More important, however, is Universal's schedule of new releases which include a larger number of better grade motion pictures than the company has ever released before. If these films can meet with as favorable an acceptance as the two releases made earlier this year, "The Grass is Greener" and "Midnight Lace," then Universal should do well in 1961.

Considerable attention, however, must be paid to the company's income statement, which will be quite different from the year before. First, 1960's initial quarter was an unusually profitable one as a result of two highly successful films which threw off a large part of their profits in that period. Second, Universal's management will probably choose to place "Spartacus" on a cost recovery basis, which will mean that only distribution profits will be taken into the income account until all film costs are recovered. As a result Universal will be accruing substantial value in this film but may not realize the bulk of the profits until 1962. In any event, if Universal can operate as profitably in 1961, despite a comparatively poor first quarter, as it did in 1960, then prospects could be bright for gains into 1962 and 1963. **Of course this is a little too far to project for a movie maker, but it does seem important to visualize the significant value growing within this situation.**

Universal also has a fair sized library of post-1948 films and has been receiving revenues from both its pre-1948's and from the sale of its studios.

It seems wise to point out that Universal is 87% owned by **Decca Records** and, although the two companies may never consolidate completely, the purchase of Decca is tantamount to the purchase of Universal. Naturally commitments in Universal are to be considered speculative, with the greatest risk coming from possible disappointments in public response to future releases.

Business Cycles and Mickey Mouse

After almost ten years of growth **Walt Disney Productions** ran into considerable difficulty in 1960, showing decreasing returns in every area but Disneyland Park. During 1961, however, Disney will make the switch from ABC to NBC and begin broadcasting in color, while new motion picture grosses are reportedly doing better than last year. Disney has also acquired ABC-Paramount's 34½% interest in the very profitable amusement park so that it is now a wholly owned subsidiary and will contribute proportionately more to income. While a profit is expected in 1961 against a loss the year before, the Disney shares have moved up sharply from their lowest prices and now represent considerable risk to the investor.

Case of the Shrinking Capitalization

Warner Bros. has participated to a large extent in the land and film library sales that have characterized the industry, but is especially outstanding in its stock repurchases. The company has been using its substantial cash to aggressively buy back its own shares, culminating in its latest offer to repurchase 300,000 shares at prices up to $55. This reduction in capitalization follows on the heels of last February's cancellation of 639,000 treasury shares. If Warner is successful in its latest offer, then its cur-

rent capitalization will be reduced to about 1,200,000 shares. Cash will probably be reduced to about $24 million (including payment for the sale of land). Book value per share will then rise, although many of the assets are carried at only a fraction of their current values. Warner Bros. also has the least amount of long term debt outstanding ($5 million) and could generate substantial earnings in any one year. The reduced number of shares will obviously make the per share figures especially impressive in a good year, but subject to wider fluctuations.

One important feature about Warner that should not be overlooked is its considerable stake in the production of television programs, which adds considerably to the company's appeal. Although the risks are limited for the present in view of the tender invitation outstanding, the shares of this company could offer interesting speculative values both from an asset and an earnings point of view. In this instance retention is warranted.

The broad diversities among the different movie companies makes it impossible to summarize the outlook for the industry succinctly, but the foregoing analysis makes it obvious that both risks and opportunities are present in large measure. END

What 1960 Annual Earnings Reports Reveal

(Continued from page 547)

ing efficiencies, but a $1.1 million tax credit last year also played a part. The market was "severely competitive" in 1960, a particularly sharp drop being experienced in the fourth quarter. Indications are that some time must still pass before Kaiser can benefit fully from its very large expenditures both in bauxite reserves and aluminum refining and fabrication.

Chemicals Follow General Pattern Closely

Chemical companies hewed closely to the general pattern in 1960 by showing very narrow sales advances in combination with reduced profit margins. **Monsanto,** for example, lifted sales about 2% to $890 million and suffered a simultaneous decline in net per share to $2.49 from $2.80 a year ago. For the first time in 1960 Chemstrand's results were fully consolidated into its parent's statement. Physical sales volumes expanded considerably more than the 2% just cited, but the company was hurt by lower prices for many of its plastics, such as polyethylene, as well as by higher costs.

Diamond Alkali established both new sales and earnings records in 1960, but only by extremely narrow margins. Sales advanced barely one half per cent to $138 million, and net per share moved up 8¢ to $3.87. The final quarter was the least favorable for the year and reflected, in the words of President Evans, "the generally unsettled business conditions" now prevailing. The $1.80 dividend here is well protected but further progress must await the restoration of firmer profit margins in this industry.

Looking somewhat better than these two in respect to sales, with a 1960 gain of 6%, giant **Allied Chemical** nevertheless experienced the general pressure in profit margins and was able to lift net per share only nominally to $2.57. Here, again, the fourth quarter was the poorest of the year, although still "better than anticipated." The company also suffered a loss of about $1 million in a Cuban plant, written off in the final quarter. The low steel rate has affected the sale of coke, but specialty chemicals showed favorable progress during the year. Fertilizer sales also enjoy an encouraging outlook in the present year, but otherwise no particular grounds for great optimism can be cited. It does not seem necessary to hurry to buy chemical stocks at present prices.

Improved Agricultural Equipment Outlook

The agricultural equipment companies, **International Harvester** and **Deere,** both suffered severely last year. Sales were down 3% and 14% respectively for these two, Deere suffering the worst because of its long factory shut-down while retooling for new tractor models. Profit margins were slashed for both

companies, Harvester's earnings dropping to $3.40 a share from $5.46 in 1959, and Deere's even more sharply to $2.59 from $7.02.

Both companies happily face a much improved outlook for the current year, reflecting both a recovery in farm income and the natural replacement cycle for farm machinery. Nevertheless, inventories are still high, at least on the part of Harvester, and upward pressure on costs represents a continuing problem.

When Will The Recovery Set In?

The companies which have already issued preliminary income statements for 1960 include some of the largest and are pretty typical of industry in general. Thus, it seems unlikely that the trends noted here will be materially changed by a larger sampling, although many individually interesting reports may still be expected to appear. The set-back in earnings is generally moderate and results cannot really be considered bad except in contrast with the extremely optimistic predictions being issued at this time a year ago. Mild adversity may often, in fact, be healthy. Many of the companies just mentioned have already instituted cost-control programs of various kinds, and the rate of capital expansion on the part of steel, petroleum and other heavy industries is being cut down. These efforts are likely to arrest a further decline, but actual recovery must await a general pick-up in the economy. The timing of such a pick-up is the most important question confronting management at present. END

Price-Fixing Scandals

(Continued from page 551)

bitterness that will follow in the wake of the affair. Customers, at a time when ordering is active, can be expected to view all bids with suspicion, and to attempt to play one producer against the other in hope of getting more favorable terms. The industry will be constantly on the defensive, and may be forced to accept lower profit margins in order to re-establish its good name.

In addition, fights for control among several of the companies involved may also develop. Where highly placed management has been accused (and possibly convicted) of action detrimental to the firm, stockholders are likely to rise up in arms to "throw the rascals out." Or, among the larger companies, dissension among top management and jockeying for positions of control can divert corporate energies from their main purposes.

In sum, no one has been well served by this affair. The people directly involved will be punished, if guilty. The companies have been hurt; the stockholders have been victimized; and the entire industry has been disorganized. The only beneficiaries are the enemies of the free enterprise system, and the forces of Bigger Government.

American corporate management has been creative and successful. It has cleaned its own house before, and it will do it again. In the meanwhile, however, there will be pain. END

Outlook For World Trade In 1961

(Continued from page 557)

sion teams composed of U. S. businessmen are contacting trade organizations, chambers of commerce and individual businessmen abroad.

► Another encouraging factor is that American producers have become more export-conscious and in many instances indicate a more aggressive attitude toward exports. For instance, General Electric has just established an international advertising program to highlight the broad spectrum of GE products to a vast global audience. A major steamship line, the Isbrandtsen Company, to cite another example, has developed a mobile trade fair for exhibiting American household appliances, machinery and drugs in ten Middle and Far East port cities on a round-robin

basis. This tendency should become even more pronounced as NEEP gets into higher gear.

U. S. Plants Abroad May Set Contagious Example

Rising living standards overseas should also provide an attractive market potential for products that once were sold only in the United States. Still another growth factor may be provided by the promotional aspect of U. S. plants abroad. These enterprises can become distributors not only for the goods they themselves produce but also often for the entire line of goods made by their parent companies back in the States. They will also buy sizeable quantities of materials from their parents, as well as purchase most of their capital equipment from home. And what is more, the first-hand view of the performance of American machinery abroad should reveal to fledgling foreign-owned plants the advantages of using American machinery.

In short, the underpinnings of our export structure display a broad base of strength while the prospects for future exports offers opportunities. The hours and dollars spent by American management in seeking and seizing these opportunities can reap a profitable harvest.

Rising Imports Also Expected

Imports into the United States have increased steadily over the past seven years and predictions are that this trend will continue with an increase in '61 over 1960. Total imports, in fact, are expected to reach the 15 billion dollar mark as compared with the estimated 14.7 billion for 1960.

► The rising trend in imports for recent years will continue this year for several reasons. With the pick-up in economic activity forecast for mid-'61 by most economists, retailers will start replenishing their depleted inventories of imported wares. Also, President Kennedy is expected to follow broad liberal trade policies and hence is not likely to raise new import curbs. And even more logically, since the expansion of United States exports is indispensable for checking the dollar outflow, the administration's necessary efforts to have foreign barriers to such exports reduced make it essential that the United States reciprocate by refraining from raising new import restrictions of its own. Finally, should the European boom in fact slacken off, a greater drive on Europe's part for imports to this country would be inspired.

How can American business cope with this apparent infiltration of its home markets? An analysis of the nature and character of our imports should point up some guidelines for the American businessman in this respect.

Area of Foreign Advantage Expanding

► The most popular imports now include Japanese transistor radios, Italian typewriters, British tweed suits, Parisian fashion-wear, and miscellaneous consumer goods such as Danish furniture, Japanese and German cameras, toys and clocks. These goods are generally unlike the products made here — they largely satisfy different tastes and may even meet demands for higher quality. A market in the United States for British tweeds exists because some of the market wants *British* tweeds. To the American buyer, these goods are specialities and are not being bought particularly because their price is cheaper.

► With this qualification in mind, a good deal of the alarm over cheap foreign labor being wholly responsible for American vulnerability to imports can be dimissed. There is no doubt, however, that textiles and handicrafts from abroad have penetrated our market because they are cheaper than our goods, due to lower foreign labor costs. Similar foreign infiltration might eventually extend to a greater number of industrial markets. Thus, it is important that the American manufacturer be able to foresee when any foreign product is likely to reach the point where its price will be lower than its American counterpart. This is no simple matter, of course, for who would ever have thought that the United States would one day be importing sewing machines and typewriters, products of mass-production, formerly regarded as America's particular forte.

► Since our competitive edge is founded for the most part on

our ability to mass-produce, it is when foreign volume aproaches domestic runs that foreign goods are likely to become competitive price-wise. Hence, the American businessman should watch for shifts in overseas consumption patterns. As soon as a mass market develops for a product in a foreign nation, the industry can slash its prices and a new import threat soon arises. For example, in West Germany the new mass market for compact cars has outstripped the average national growth rate and production volume increases other industries. Since similiar cars are desired by American consumers, the German Volkswagen satisfies American needs and has thus become competitive in the United States.

What happens when the number of foreign industries with large domestic volume increases to the point that competitive foreign imports of every variety are flooding the market? This is not likely to occur for, as the post-war period has already shown, a rise in foreign wages will eventually accompany increases in production volume. Hence, although the variety and number of imports will increase, their ability to underprice American goods will decrease. Moreover, it will take many years for Europe or Japan to match the capital accumulation and productivity of the United States.

The Most Serious Type of Competition

In light of this analysis, then, American industry will only be underpriced at home by those foreign industries wherein the overseas manufacturer can equal the capital investment of his American counterpart, make the same product in equal numbers and simultaineously pay cheaper wages. The number of foreign manufacturers enjoying these conditions overseas is few indeed and is not likely to increase rapidly. *The real challenge to the American businessman is his American competitor who already has a share of the U. S. market but who manufactures abroad, matches the capital intensity of his American counterparts, and utilitizes his technical knowhow for reduction of production costs, while taking full advantage of lower foreign wages.*

► A prime example is the case of some American bicycle manufacturers. They have protected themselves competitively by utilizing foreign labor in overseas production plants; these plants serve the two-fold purpose of supplying parts to the American market and of enabling the American manufacturers to sell competitively in the back-yard of foreign bicycle producers.

In conclusion, the perspective of almost every American industry is being widened by two parallel trends. One is the growth of opportunities in foreign markets and the other is the growing penetration of our market by foreign-made goods. These trends will continue in '61. They suggest that an American firm that neglects any opportunity anywhere in the world may be fostering its own competition both in markets at home and abroad.

END

Favorable Investment Outlook For Insurance Companies In 1961

(Continued from page 560)

tioned as merger possibilities are Aetna Insurance and Phoenix Insurance. Both of these companies have their head office in Hartford, and while the rumors never link the two together, it is believed by some observers that Aetna may eventually go with one of the larger multiple line groups in Hartford while Phoenix will go with another. Just how this is to develop without a change in the New York State law prohibiting life insurance companies licensed in New York from acquiring fire and casualty insurance companies remains to be seen.

► **The trend toward multiple-line operations of fire and casualty insurance companies with life insurance companies appears to be continuing.** However, most of the acquisitions of life insurance affiliates by such companies as Federal Insurance, St. Paul Fire & Marine, Hartford Fire, Glens Falls Insurance, Home Insurance and Springfield Insurance took place prior to 1960. ● Several other companies such as Insurance Company of North America, Great American and U. S. Fi-

delity & Guaranty Company have started their own life insurance company subsidiaries from scratch.

Position and Outlook

With respect to life insurance companies, the available information indicates that, while sales were up only moderately last year, the industry enjoyed a substantial improvement in operating results. The lack of interim earnings data for these companies and the lag in obtaining year-end earnings reports handicaps the analyst in developing precise earnings results until well after the end of the calendar year. However, industry information furnished by the Institute of Life Insurance and the Life Insurance Association of America indicate the following:

►1. Life insurance in force rose from $534 billion at the end of 1959 to $585 billion at the end of 1960. The current figure is more than double the $277 billion of life insurance in force eight years ago, at the end of 1952. The most rapid gainer has been group life insurance which accounts for $175 billion, or about a third of all life insurance in force, compared to about 25% of the total ten years ago.

►2. Assets of life insurancet companies have also grown steadily, but not quite as rapidly as the amount of life insurance in force. The preliminary figure for assets of life companies at December 31, 1960 was $119.5 billion which is double the $59.6 billion figure of eleven years ago at December 31, 1949.

►3. The net rate of life insurance companies rose to 4.12% last year compared with 3.96% in 1959 and 2.88% in 1947. Both figures are before income taxes. This percentage has risen steadily in each of the last 13 years and is expected to rise further in 1961 despite current easier money conditions this year. As the old very low interest bearing securities mature and the funds are reinvested at today's higher rates, the average rate of return continues to move up.

►4. Perhaps of equal importance to life insurance companies as the rate earned on investments is the mortality rate of policyholders. The longer policyholders live, the longer the companies have the use of reserve funds and the more premiums they receive. The death rate among American policyholders of ordinary life insurance for 1960 is estimated at 6.0 for every 1,000 persons, less by a small fraction than 1959. However the 1960 death rate represents a decline of about one-fifth over the past 40 years and is somewhat lower than the average rate of the 1950's.

Continued improvement in the underlying factors influencing life insurance company underwriting results, coupled with the aforementioned clearing of the uncertainties concerning Federal income tax liabilities, is setting the stage for a resurgence of investor interest in stocks of life insurance companies.

The Individual Companies

Among the life insurance company stocks which have done well recently and are giving promise of continuing to turn in good performances are Travelers Insurance, Aetna Life Insurance, Connecticut General Life, Lincoln National Life and Continental Assurance.

► It should be noted that those top grade fire and casualty insurance companies which have life insurance company subsidiaries (Federal Insurance, Continental Casualty, Hartford Fire, Insurance Company of North America and St. Paul Fire and Marine) have been turning in the best market performances recently.

In Sum

Insurance stocks represent a special group of equities traded chiefly in the over-the-counter market and not as widely understood or appreciated as the general run of industrial, utility or railroad securities. However, the general level of investment quality among this group of stocks is high. Dividend records tend to be very long, and over-all market performance over many years has been on balance rather favorable for investors. In current equity markets increased emphasis is being placed on soundness and dependability. These stocks have such features plus steady growth without inventory risks or without fear of obsolescence through style changes.

At present both the fire and casualty stocks and the life stocks are in a favorable stage both with respect to improving earnings trends and in the matter of rising investor appreciation of their merits. END

As I See It!

(Continued from page 537)

Eisenhower administration's unwillingness to panic when we have business recessions, has played an important part in helping the nation keep its equilibrium. We must face the fact that in a free economy all curves of production, income and earnings do not move upward in a straight line. **We must allow room for possible downward readjustments from time to time or suffer the consequences of runaway inflation.**

The price we pay for sound money may be a recession such as we had in 1958 and are now experiencing. But it is a cheap price to pay compared with the losses we might suffer if we allow inflationary forces to get the upper hand.

We simply cannot afford to go all out in crash programs, to correct relatively mild business recessions and thus free the forces of inflation. This should be kept in mind by the Kennedy Administration when it talks of indifference and economic stagnation. **The truth of the matter is that the present administration has inherited a far healthier and basically more soundly prosperous and dynamic economy than was the inheritance of the Eisenhower Administration.** END

Profits Mount To 684 Points
---On The 22 Stocks In Our Open Position

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